MITSUI SUMITOMO INSURANCE COMPANY LIMITED - NEW ZEALAND BRANCH

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

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 2012.

Mitsui Sumitomo Insurance Company Limited - New Zealand Branch
Income Statement
For the year ended 31 March 2012

	Notes	2012 $	2011 $
Total Revenue	1	**30,156,652**	**77,502,938**
Gross earned premium	2a	9,048,704	7,810,492
Reinsurance expense	3	(2,142,336)	(2,103,235)
Net Premium Revenue		**6,906,368**	**5,707,257**
Claims Expense	5	**(25,947,226)**	**(125,545,425)**
Reinsurance and Other Recoveries	5	**17,831,288**	**69,043,436**
Net Claims Expense		**(8,115,938)**	**(56,501,989)**
Commissions		(362,467)	(293,718)
Reinsurance commission income		340,894	331,186
Net Acquisition Costs		**(21,573)**	**37,468**
Underwriting Result		**(1,231,143)**	**(50,757,264)**
Operating Expenses	4	**(1,272,714)**	**(1,042,868)**
Investment income	2b	2,933,989	317,630
Sundry income		1,777	194
Net Profit/(Loss) Before Tax		**431,909**	**(51,482,308)**
Taxation (expense)/credit	6	-	24,852
Net Profit/(Loss) for the Period		**431,909**	**(51,457,456)**
Other comprehensive income for the period		-	-
Total Comprehensive Income for the Period		**431,909**	**(51,457,456)**

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

Statement of Movement in Head Office Account

For the year ended 31 March 2012

	2012 $	2011 $
Opening Head Office Balance	**(5,415,449)**	**6,905,866**
Profit/(loss) for the period	431,909	(51,457,456)
Total comprehensive income for the period	**431,909**	**(51,457,456)**
Funding from Head Office	61,799,990	39,136,141
Closing Head Office Balance	**56,816,450**	**(5,415,449)**

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 2012

	Notes	2012 $	2011 $
Assets			
Cash and Cash Equivalents		104,413,611	48,269,066
Investment in Government Stock	8	542,823	510,627
Premium Receivables		1,851,160	1,810,423
Taxation Receivable		56,542	668,067
Reinsurance Receivable		159,081	397,764
Reinsurance Recoveries	19	85,688,747	68,772,000
Other Current Assets	7	1,496,127	756,854
Property, Plant and Equipment	9	31	8,602
Total Assets		**194,208,122**	**121,193,403**
Liabilities			
Accounts Payable	12	444,232	363,428
Reinsurance Payable		346,182	138,937
Other Current Liabilities	13	183,950	160,321
Outstanding Claims Liability	10	132,858,328	123,112,000
Unearned Premium Reserve	11	2,724,631	2,351,452
Due to Related Parties	17	834,349	482,714
Deferred Tax Liability	14	-	-
Total Liabilities		**137,391,672**	**126,608,852**
Net Assets/(Liabilities)		**56,816,450**	**(5,415,449)**
Head Office Account		**56,816,450**	**(5,415,449)**

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

For and on behalf of the Board of Directors

Director

31 July 2012

Date

Director

31 July 2012

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 Auckland Club Tower, 34 Shortland Street, Auckland, New Zealand. These Branch financial statements should be read in conjunction with the full financial statements of the Company.

The financial statements of the Branch are for the year ended 31 March 2012. The financial statements were authorised for issue by the Directors on the 31 of July 2012.

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-oriented 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 with the exception of NZ IAS 12 - Income Taxes and NZ IFRS 7 Financial Instruments: Disclosure.

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 areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 24. These relate to the outstanding claims liability and reinsurance recoveries in Notes 10 and 19 respectively. 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.

The financial statements have been prepared on a going concern basis, which the directors believe is appropriate. The Branch has received capital injections, details of which are described in Note 20.

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.

Comparatives

Certain comparatives have been reclassified to comply with current year presentation.

KPMG

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 insurance 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 net of 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 2012 (2011: Nil).

KPMG

Reinsurance Recoveries

Reinsurance receivables, being amounts recoverable on paid claims, and reinsurance recoveries on outstanding claims liabilities are recognised in revenue. Reinsurance recoveries are measured at the present value of the expected future receipts, calculated on the same basis as the outstanding claims liability. 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

A financial asset is recognised in the Balance Sheet when the Branch becomes a party to the contractual provisions of the instrument. Initial recognition is at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset except for financial assets at fair value through profit or loss which exclude transaction costs.

All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention are recognised at trade date, being the date on which the Branch commits to buy or sell the asset. Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and the Branch has transferred substantially all risk and rewards of ownership.

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 holds cash and cash equivalents which back general insurance liabilities. Included within cash and cash equivalents are deposits which have a carrying value at year end of $100,465,000 (2011: $7,200,000).

KPMG

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.

Payables

These amounts represent liabilities for goods and services provided to the Branch prior to the end of the period, which are unpaid. Payables 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 asset's 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, repayable at the discretion of the Branch. As a Branch there are no externally imposed capital restrictions to which the Branch must adhere. Refer to Note 20 Solvency.

KPMG

1 Total Revenue	**2012 $**	**2011 $**
This comprises:		
Gross written premium	9,421,883	8,114,614
Change in unearned premium provision	(373,179)	(304,122)
Gross Earned Premium	**9,048,704**	**7,810,492**
Reinsurance commission income	340,894	331,186
Reinsurance and other recoveries	17,831,288	69,043,436
Reinsurance Income	**18,172,182**	**69,374,622**
Investment income	2,933,989	317,630
Sundry income	1,777	194
Total Revenue	**30,156,652**	**77,502,938**

2(a) Premium Revenue	**2012 $**	**2011 $**
Direct	9,006,028	7,765,688
Reinsurance	42,676	44,804
Total Gross Earned Premium	**9,048,704**	**7,810,492**

2(b) Investment Income

Financial assets at fair value through profit or loss (designated upon initial recognition)		
Interest income	30,164	30,000
Change in fair value	(16,137)	(6,836)
Cash and cash equivalents interest income	2,919,962	294,466
Total Investment Income	**2,933,989**	**317,630**

3 Reinsurance Expense	**2012 $**	**2011 $**
Outward reinsurance premium expense	(2,372,998)	(2,214,566)
Change in unearned reinsurance premium provision	230,662	111,331
	(2,142,336)	(2,103,235)

4 Operating Expenses	**2012 $**	**2011 $**
Management fee	761,990	688,172
Fees paid to auditors:		
audit	65,000	54,065
audit related	4,200	4,100
tax	9,682	11,310
Depreciation	8,571	10,988
Other expenses	423,271	274,233
Total operating expenses	1,272,714	1,042,868

Audit related fees are for work performed on regulatory returns.

5 **Claims Expense**	2012 $	2011 $
Direct	25,942,695	125,544,958
Reinsurance	4,531	467
	25,947,226	125,545,425

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.

2012	**Current Year** $	**Prior Years** $	**Total** $
Gross claims incurred - undiscounted	10,097,446	10,478,567	20,576,013
Discount movement	(52,778)	5,423,991	5,371,213
Gross claims incurred	10,044,668	15,902,558	25,947,226
Reinsurance and other recoveries - undiscounted	(1,395,376)	(16,448,449)	(17,843,825)
Discount movement	17,444	(4,907)	12,537
Reinsurance and other recoveries - discounted	(1,377,932)	(16,453,356)	(17,831,288)
Net claims incurred	8,666,736	(550,798)	8,115,938

2011	**Current Year** $	**Prior Years** $	**Total** $
Gross claims incurred - undiscounted	131,599,682	(630,257)	130,969,425
Discount movement	(5,424,000)	-	(5,424,000)
Gross claims incurred	126,175,682	(630,257)	125,545,425
Reinsurance and other recoveries - undiscounted	(69,125,874)	77,438	(69,048,436)
Discount movement	5,000	-	5,000
Reinsurance and other recoveries - discounted	(69,120,874)	77,438	(69,043,436)
Net claims incurred	57,054,808	(552,819)	56,501,989

	2012 $	**2011** $
Outstanding claims liability at 1 April	123,112,000	1,069,257
Claims reassessed	15,902,558	(630,257)
Claims paid	(16,200,898)	(3,502,682)
New claims	10,044,668	126,175,682
Outstanding claims liability at 31 March	132,858,328	123,112,000

Estimation of outstanding claims and premium liabilities always contains an element of uncertainty. This is the nature of Insurance and is to be expected. Usually, there is a reasonably stable and widespread portfolio of business and a body of claims history available so that estimates can be based on analyses of past experience.

However there is no suitable body of claims experience available in relation to the development of claims arising from a severe earthquake affecting a modern city in New Zealand, such as the series of earthquakes affecting Canterbury and Christchurch during the previous and current financial year. There are many special circumstances applying that create an increased level of uncertainty in regard to the valuation of the gross cost of earthquake claims. These uncertainties are described in more detail in note 10.

The prior year's reassessment shown above relates predominantly to earthquake claims occurring in the immediately preceding financial year, in particular the February 2011 earthquake event. The reassessment was largely as a result of the proximity of the February 2011 event to the previous financial year's balance date and the inability to access the affected properties to fully assess the extent of the damage as at 31 March 2011.

KPMG

6 Taxation Expense

	2012 $	2011 $
Current tax expense		
Current period	13,988	(47,928)
Adjustment for prior periods	(13,988)	-
Deferred tax expense		
Origination and reversal of timing differences	-	23,076
Total Income Tax Expense	-	(24,852)
Reconciliation of effective tax rate		
Profit/(loss) before tax	431,909	(51,482,308)
Income tax at Branch tax rate 28% (2011: 30%)	120,935	(15,444,693)
Non deductible expenses	349	566
Tax adjustment on unrecognised losses	(120,386)	15,394,112
Prior period under provision	37	28,520
Effect of change of tax rate to 28%	(935)	(3,358)
Total Income Tax Expense	-	(24,852)

The corporate tax rate changed from 30% to 28% from 2011-2012 income year.

7 Other Current Assets

	2012 $	2011 $
Accrued income	154,471	30,292
Deferred acquisition costs	208,390	214,636
Deferred reinsurance premium	552,651	321,989
Prepaid expenses	97,213	71,643
GST receivable	483,402	118,294
	1,496,127	756,854

	2012 $	2011 $
Deferred acquisition costs at 1 April	214,636	146,966
Acquisition costs deferred	356,221	361,388
Amortisation charged to Income Statement	(362,467)	(293,718)
Deferred acquisition costs at 31 March	208,390	214,636

	2012 $	2011 $
Deferred reinsurance premium at 1 April	321,989	210,658
Reinsurance premium deferred	2,372,998	2,214,566
Reinsurance premium charged to Income Statement	(2,142,336)	(2,103,235)
Prepaid reinsurance premium at 31 March	552,651	321,989

8 Investment in Government Stock

	2012 $	2011 $
Fixed income securities - New Zealand Government Stock	542,823	510,627

9 Property, Plant and Equipment

Cost	Motor vehicles $	Office equipment $	Total $
Balance at 1 April 2010	32,589	35,453	68,042
Additions	-	-	-
Balance at 31 March 2011	32,589	35,453	68,042
Balance at 1 April 2011	32,589	35,453	68,042
Additions	-	-	-
Balance at 31 March 2012	32,589	35,453	68,042

Accumulated depreciation	Motor vehicles $	Office equipment $	Total $
Balance at 1 April 2010	32,589	15,863	48,452
Charge for the year	-	10,988	10,988
Balance at 31 March 2011	32,589	26,851	59,440
Balance at 1 April 2011	32,589	26,851	59,440
Charge for the year	-	8,571	8,571
Balance at 31 March 2012	**32,589**	**35,422**	**68,011**
Carrying amounts			
At 1 April 2010	-	19,590	19,590
At 31 March 2011	-	8,602	8,602
At 1 April 2011	-	8,602	8,602
At 31 March 2012	**-**	**31**	**31**

10 **Outstanding Claims Liability**	2012 $	2011 $
Central estimate of outstanding claims liabilities	129,672,901	121,756,000
Discount to present value	(44,245)	(5,424,000)
Risk margin	3,102,478	6,748,000
Claims handling expense	127,194	32,000
	132,858,328	123,112,000

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 2.4% (2011: 5.8%).

Insurance contract assumptions

The risk margin adopted in determining the outstanding claims liability is $3,102,478 (2011: $6,748,000). This is intended to achieve a provision which will have a 75% probability of adequacy (2011: 75%).

There are considerable uncertainties surrounding the measurement of gross claims liabilities and the related reinsurance recoveries arising from the Canterbury earthquakes. These arise from a number of factors including; a lack of historical data; longer than normal claims development periods; the presence and frequency of aftershocks; complexities associated with determining key actuarial assumptions including the selection of a risk margin, discount rates and inflationary assumptions; and uncertainty surrounding applicable building standards. These uncertainties existed during the prior period and are likely to remain for the foreseeable future.

Given the nature and number of uncertainties associated with the Canterbury earthquakes, the Branch's actual claims experience may deviate, perhaps substantially, from the gross outstanding claims liabilities recorded as at 31 March 2012. Any changes to estimates will be recorded in the accounting period when they become known.

11 **Unearned Premium Reserve**	2012 $	2011 $
Unearned premium liability	2,724,631	2,351,452

	2012 $	2011 $
Unearned premium liability at 1 April	2,351,452	2,047,330
Deferral of premium on contracts written at year end	2,724,631	2,351,452
Prior year premium earned	(2,351,452)	(2,047,330)
Unearned premium liability at 31 March	2,724,631	2,351,452

Liability adequacy test

A liability adequacy test was performed as at 31 March 2012 and 31 March 2011. Both tests identified a surplus. The tests were based on the following assumptions:

	2012 $	2011 $
Premium available to meet expected claims cost	1,863,648	1,749,000
Expected claims cost	729,572	733,000
Component of present value of expected future cash flows relating to the risk margin	107,022	86,000
The percentage risk margin adopted in determining the present value of expected future cashflows (%)	15%	12%
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	2012 $	2011 $
Trade creditors and accruals	433,464	188,622
Government levies	10,768	174,806
	444,232	363,428

13 Other Current Liabilities	2012 $	2011 $
Unearned reinsurance commission	67,672	57,573
Non-resident withholding tax	116,278	102,748
	183,950	160,321

	2012 $	2011 $
Unearned reinsurance commission at 1 April	57,573	40,993
Reinsurance commission deferred	350,993	347,766
Reinsurance commission recognised in Income Statement	(340,894)	(331,186)
Unearned reinsurance commission at 31 March	67,672	57,573

14 Deferred Tax

Deferred tax assets and liabilities are attributable to the following:

2012	Assets $	Liabilities $	Total $
Tax losses	58,349	-	58,349
Other items	-	(58,349)	(58,349)
Total	58,349	(58,349)	-

2011	Assets $	Liabilities $	Total $
Provisions	16,800	-	16,800
Tax losses	50,366	-	50,366
Other items	-	(67,166)	(67,166)
Total	67,166	(67,166)	-

At 31 March 2012 there are unused tax losses of $50,976,209 (2011: $51,313,707) for which no deferred tax asset is 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 (2011: 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.

Transactions with Head Office:	2012 $	2011 $
Reinsurance premiums	601,102	495,530
Reinsurance recoveries	(90,045)	(62,418)
Reinsurance commission earned	(144,201)	(150,926)
Other expense paid/ recharged	(15,221)	(14,866)
Funding from Head Office	61,799,990	39,136,141
	62,151,625	39,403,461
Outstanding balance with Head Office:		
Due to related parties	834,349	482,714

In April 2010, Mitsui Sumitomo Insurance Group, Aioi Insurance Co., Ltd and Nissay Dowa General Insurance Co., Ltd merged their operations to create Japan's largest non-life insurer. Because of this merger, the Branch also has established a related party relationship with Aioi Management New Zealand Ltd ("Aioi") since 26 July 2010. Aioi provides services of handling motor vehicle accident claims on behalf of the Branch which took effect 1 August 2010.

Transactions with Aioi:	2012 $	2011 $
Management fees paid	37,500	18,250
Outstanding balance with Aioi:		
Other current assets	96,658	59,553

All the above 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 A+ (2011: AA-) credit rating from Standard and Poor's dated 10 April 2012. The credit rating is an indication of the Branch's current and future claims paying ability.

19 Reinsurance Recoveries

	2012 $	2011 $
Reinsurance recoveries arising from claims	**85,688,747**	**68,772,000**

	2012 $	2011 $
Reinsurance and other recoveries receivable at 1 April	68,772,000	199,438
Recoveries on claims reassessed	16,453,356	(77,438)
Recoveries received	(914,541)	(470,874)
Recoveries on new claims	1,377,932	69,120,874
Reinsurance and other recoveries receivable at 31 March	85,688,747	68,772,000

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.

There are considerable uncertainties that exist surrounding the measurement of reinsurance recoveries as a result of the uncertainties surrounding the measurement of the related outstanding claims liabilities resulting from the Canterbury earthquakes. These uncertainties are discussed in Note 10.

20 Solvency

The Branch has been granted a provisional licence under the Insurance (Prudential Supervision) Act 2010 ('the Act"). As the Branch is a branch of an overseas insurer it is exempt under the Act from complying with the Solvency Standard for Non-life Insurance Business subject to the condition that the Company meets the equivalent Japanese non-Life solvency standard. The table below discloses the solvency margin for Mitsui Sumitomo Insurance Company Limited which includes the Branch, as disclosed in the MS and AD Insurance Group Holdings, Inc 2011 Annual Report and the 31 March 2012 Supplement to the Earnings Report available from www.ms-ad-hd.com, as calculated under the Japanese regulations. The 2011 Annual Report states that a solvency margin ratio of 200% or higher indicates that an insurance company has sufficient capability to pay insurance claims and other obligations.

	2012 Yen in millions (Unaudited)	2011 Yen in millions (Unaudited)
Solvency Margin Total Amount	1,656,380	1,999,806
Risk Amount	680,488	747,903
Solvency Margin Ratio	486.8%	534.7%

The Branch's capital base was impacted by the Christchurch earthquake events on 4 September 2010, 22 February 2011 and 13 June 2011. To support the Branch, Head Office has remitted a NZD 39,136,141 cash injection during March 2011. A further NZD 61,799,990 cash was injected in June 2011. These were made to support the Branch's anticipated earthquake claims payments.

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 2012 or the Branch's financial position as at 31 March 2012.

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 is 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 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. The credit terms for the settlement of premiums in New Zealand is 90 days.

This year the Branch has a concentration of credit risk with ANZ National Bank Limited ($57,146,849) and ASB Bank Limited ($47,266,762) representing all cash and cash equivalents held. In the prior year all cash and cash equivalent balances were held with ANZ National Bank Limited. The Branch's reinsurance recoveries are spread over a number of counterparties and relate predominantly to the Canterbury earthquakes. The largest concentration with a single reinsurer is for $18,041,436 (2011: $15,631,876).

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				
	AA	A	BBB	Not Rated	Total
2012	$	$	$	$	$
Cash and Cash Equivalents	104,413,611	-	-	-	104,413,611
Premium Receivables	-	-	-	1,851,160	1,851,160
Reinsurance Receivable	-	159,081	-	-	159,081
Reinsurance Recoveries	31,865,345	52,347,183	637,196	839,023	85,688,747
Investment in Government Stock	542,823	-	-	-	542,823
Other Current Assets - Accrued Income	154,471	-	-	-	154,471
Total	136,976,250	52,506,264	637,196	2,690,183	192,809,893

2011	AAA $	AA $	A $	Not Rated $	Total $
	Credit Rating				
Cash and Cash Equivalents	-	48,269,066	-	-	48,269,066
Premium Receivables	-	-	-	1,810,423	1,810,423
Reinsurance Receivable	-	-	397,764	-	397,764
Reinsurance Recoveries	-	7,826,254	58,332,410	2,613,336	68,772,000
Investment in Government Stock	510,627	-	-	-	510,627
Other Current Assets - Accrued Income	11,096	19,196	-	-	30,292
Total	**521,723**	**56,114,516**	**58,730,174**	**4,423,759**	**119,790,172**

As at 31 March 2012 there are no assets that are past due or impaired (2011: Nil).

(b) Liquidity risk

Liquidity risk is the risk that the Branch is unable to convert its financial assets into cash to pay for its financial obligations when they fall due. The Branch has processes in place to monitor and forecast its liquidity position. The Branch maintains 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 cash flows. Balances due within 12 months equal carrying balances, as the impact of discounting is not significant.

2012	0 - 1 Year $	1 - 2 Years $	2 - 4 Years $	No Term $	Total $
	Maturing In:				
Financial Assets					
Cash and Cash Equivalents	104,413,611	-	-	-	104,413,611
Premium Receivables	1,851,160	-	-	-	1,851,160
Reinsurance Receivable	159,081	-	-	-	159,081
Reinsurance Recoveries	85,688,747	-	-	-	85,688,747
Investment in Government Stock	-	-	542,823	-	542,823
Other Current Assets - Accrued Income	154,471	-	-	-	154,471
Total	**192,267,070**	**-**	**542,823**	**-**	**192,809,893**
Financial Liabilities					
Outstanding Claims Liability	132,858,328	-	-	-	132,858,328
Unearned Premium Reserve	2,724,631	-	-	-	2,724,631
Due to Related Parties	-	-	-	834,349	834,349
Reinsurance Payable	346,182	-	-	-	346,182
Trade Creditors and Accruals	433,464	-	-	-	433,464
Total	**136,362,605**	**-**	**-**	**834,349**	**137,196,954**
Surplus/(Deficit)	**55,904,465**	**-**	**542,823**	**(834,349)**	**55,612,939**

2011	0 - 1 Year $	1 - 2 Years $	2 - 4 Years $	No Term $	Total $
	Maturing In:				
Financial Assets					
Cash and Cash Equivalents	48,269,066	-	-	-	48,269,066
Premium Receivables	1,810,423	-	-	-	1,810,423
Reinsurance Receivable	397,764	-	-	-	397,764
Reinsurance Recoveries	68,772,000	-	-	-	68,772,000
Investment in Government Stock	510,627	-	-	-	510,627
Other Current Assets - Accrued Income	30,292	-	-	-	30,292
Total	**119,790,172**	**-**	**-**	**-**	**119,790,172**

2011	0 - 1 Year $	1 - 2 Years $	2 - 4 Years $	No Term $	Total $
Financial Liabilities					
Outstanding Claims Liability	123,112,000	-	-	-	123,112,000
Unearned Premium Reserve	2,351,452	-	-	-	2,351,452
Due to Related Parties	-	-	-	482,714	482,714
Reinsurance Payable	138,937	-	-	-	138,937
Trade Creditors and Accruals	188,623	-	-	-	188,623
Total	**125,791,012**	**-**	**-**	**482,714**	**126,273,726**
Surplus/(Deficit)	**(6,000,840)**	**-**	**-**	**(482,714)**	**(6,483,554)**

The above disclosures relate to contractual maturity dates. In preparing the net outstanding claims liability, the actuary has estimated term to settlement dates, details of which are disclosed in Note 24(a).

(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 primarily exposed to currency risk through its catastrophe reinsurance programme. The threshold at which reinsurance recoveries can be claimed is expressed in Japanese Yen. A 1% strengthening of the Yen against the New Zealand dollar would result in an increase in the threshold of $449,667 (2011: $479,000), and a corresponding decrease in reinsurance recoverable at 31 March 2012.

(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 in respect of their fair value as interest rates move. Financial assets with floating interest rates create exposure in respect of uncertainty in cashflows as interest rates move due to re-pricing.

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%
2012	Carrying Amount $	Profit/Equity $	Profit/Equity $
Financial Assets			
Cash and Cash Equivalents	104,413,611	(1,044,136)	1,044,136
Total Floating Rate Financial Assets	104,413,611	(1,044,136)	1,044,136
Net Floating Rate Financial Assets	**104,413,611**	**(1,044,136)**	**1,044,136**

2011	Carrying Amount $	Profit/Equity $	Profit/Equity $
Financial Assets			
Cash and Cash Equivalents	48,269,066	(482,691)	482,691
Total Floating Rate Financial Assets	48,269,066	(482,691)	482,691
Net Floating Rate Financial Assets	**48,269,066**	**(482,691)**	**482,691**

Fair Value Sensitivity Analysis for Fixed Rate Instruments

		Interest Rate Risk -1%	+1%
2012	Carrying Amount $	Profit/Equity $	Profit/Equity $
Financial Assets			
Investment in Government Stock	542,823	15,324	(14,811)
Total Fixed Rate Financial Assets	542,823	15,324	(14,811)
Net Fixed Rate Financial Assets	**542,823**	**15,324**	**(14,811)**

2011	Carrying Amount $	Profit/Equity $	Profit/Equity $
Financial Assets			
Investment in Government Stock	510,627	1,766	(1,748)
Total Fixed Rate Financial Assets	510,627	1,766	(1,748)
Net Fixed Rate Financial Assets	**510,627**	**1,766**	**(1,748)**

Analysis of Financial Assets/Liabilities

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

2012	Total $	Loans and Receivables $	Fair Value through Profit and Loss $
Financial Assets			
Cash and Cash Equivalents	104,413,611	104,413,611	-
Premium Receivables	1,851,160	1,851,160	-
Reinsurance Receivable	159,081	159,081	-
Investment in Government Stock	542,823	-	542,823
Other Current Assets - Accrued Income	154,471	154,471	-
Total	**107,121,146**	**106,578,323**	**542,823**

	Total $	Fair Value through Profit and Loss $	Financial Liabilities at amortised cost $
Financial Liabilities			
Reinsurance Payable	346,182	-	346,182
Due to Related Parties	834,349	-	834,349
Accounts Payable - Trade Creditors and Accruals	433,464	-	433,464
Total	**1,613,995**	**-**	**1,613,995**

2011	Total $	Loans and Receivables $	Fair Value through Profit and Loss $
Financial Assets			
Cash and Cash Equivalents	48,269,066	48,269,066	-
Premium Receivables	1,810,423	1,810,423	-
Reinsurance Receivable	397,764	397,764	-
Investment in Government Stock	510,627	-	510,627
Other Current Assets - Accrued Income	30,292	30,292	-
Total	**51,018,172**	**50,507,545**	**510,627**

	Total $	Fair Value through Profit and Loss $	Financial Liabilities at amortised cost $
Financial Liabilities			
Reinsurance Payable	138,937	-	138,937
Due to Related Parties	482,714	-	482,714
Accounts Payable - Trade Creditors and Accruals	188,623	-	188,623
Total	**810,274**	**-**	**810,274**

Government Stock relates to $500,000 held by the Public Trust as an insurance security deposit (2011: $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 (2011: level 1). Other financial assets and liabilities are not measured at fair value through profit or loss. However, due to their short term (or discounted) 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 regularly.

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 for non-Canterbury earthquake claims 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.

In respect of Canterbury earthquake claims, an individual claims assessment methodology was employed.

Overall, the average weighted term to settlement of claims (of all types, net of reinsurance) is approximately 17 months (2011: 16 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.

In respect of Non-Canterbury earthquake claims, the short settlement period means the effect of discounting expected future payments is limited. These estimates have been discounted to allow for the time value of money at a rate of 2.7% per annum (not discounted in 2011).

Canterbury earthquake claims have not been discounted for the time value of money due to the uncertainties in settlement. These claims were, however, discounted in 2011 and the average discount rate used in this calculation in 2011 was 2.7% for the succeeding year and 3.6% for later years.

(c) Reinsurance

Outstanding claims estimates have been calculated on both a gross and net of reinsurance basis. The level of catastrophe reinsurance recoveries is affected by the threshold at which reinsurance recoveries can be claimed. This threshold is denominated in Japanese Yen, further details of which are in Note 22(c)(i).

(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 and claim handling expenses are based on an analysis of recent experience.

(e) Risk margin

The non-earthquake risk margins for both outstanding claims and liability adequacy testing remain unchanged from the 2011 valuation and were based on stochastic modelling techniques. They 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 earthquake risk margins are based on a claim by claim assessment and exclude any allowance for diversification. 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% (2011: 75%).

(f) Actuarial information

John Smeed (Actuary, Finity) is the actuary who 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 2012.

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 2012 are outlined in the note listed above.

The actuary has no financial interest in the Branch.

KPMG

Independent auditor's report

To the Directors of Mitsui Sumitomo Insurance Company Limited - New Zealand Branch

Report on the financial statements

We have audited the accompanying financial statements of Mitsui Sumitomo Insurance Company Limited - New Zealand Branch ("the Branch") on pages 2 to 21. The financial statements comprise the balance sheet as at 31 March 2012 and the income statement and statement of movement in the head office account for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Branch's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other services to the Branch in relation to taxation and regulatory 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 auditor of the Branch. The firm has no other relationship with, or interest in, the Branch.

Opinion

In our opinion the financial statements on pages 2 to 21:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the Branch as at 31 March 2012 and of its financial performance for the year then ended.

Canterbury earthquakes

We draw attention to Notes 10 and 19 to the financial statements which explain the considerable uncertainties that exist in measuring outstanding claims liabilities and reinsurance recoveries arising from the Canterbury earthquakes which occurred during both the current and preceding year. Our opinion is not qualified in respect of this matter.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Mitsui Sumitomo Insurance Company Limited - New Zealand Branch as far as appears from our examination of those records.

KPMG

7 August 2012

Auckland

KPMG

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Financial Statements - March 31, 2011 and 2012

(With Independent Auditor's Report Thereon)

Ichiro Iijima
Director, Vice President Executive Officer
Mitsui Sumitomo Insurance Company, Limited

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

KPMG

Independent Auditor's Report

To the Board of Directors of Mitsui Sumitomo Insurance Company, Limited:

We have audited the accompanying financial statements of Mitsui Sumitomo Insurance Company, Limited, which comprise the balance sheets as at March 31, 2011 and 2012, and the statements of income and statements of changes in net assets for the years then ended, and the related notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mitsui Sumitomo Insurance Company, Limited as at March 31, 2011 and 2012, and its financial performance for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

June 19, 2012
Tokyo, Japan

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets

As of March 31, 2011 and 2012

		2011	2012
		(Yen in millions)	
Assets			
Cash, deposits and savings:			
Cash on hand	¥	201	184
Deposits in banks		172,915	301,872
Total cash, deposits and savings		173,116	302,057
Call loans		52,000	22,000
Receivables under resale agreements		11,998	41,680
Monetary claims bought		106,278	78,563
Money trusts		9,619	9,738
Investments in securities:			
Government bonds		671,167	715,385
Municipal bonds		112,327	107,084
Corporate bonds		914,048	777,734
Stocks		1,509,706	1,417,612
Foreign securities		852,892	729,400
Other investments in securities		40,247	37,009
Total investments in securities		4,100,390	3,784,227
Loans:			
Policy loans		12,520	11,695
General loans		674,733	612,655
Total loans		687,254	624,350
Tangible fixed assets:			
Land		92,758	92,341
Buildings		116,608	141,725
Construction in progress		11,977	513
Other tangible fixed assets		15,420	15,009
Total tangible fixed assets		236,764	249,590
Intangible fixed assets:			
Software		6,695	8,006
Other intangible fixed assets		3,372	14,193
Total intangible fixed assets		10,067	22,199

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

		2011	2012
		(Yen in millions)	
Other assets:			
Premiums receivable	¥	2,990	3,457
Due from agents		86,437	95,654
Co-insurance business receivable		6,990	9,972
Reinsurance business receivable		50,340	64,553
Foreign reinsurance business receivable		15,108	110,383
Agent business receivable		286	230
Other receivables		25,325	22,854
Accrued income		9,001	7,385
Guarantee deposits		18,956	18,492
Deposits with the Japan Earthquake Reinsurance Company		81,320	8,214
Suspense payments		52,445	54,595
Assets related to derivative transactions		20,160	32,996
Other assets		2,522	2,345
Total other assets		371,886	431,135
Deferred tax assets		42,372	81,002
Customers' liabilities under acceptances and guarantees		3,211	5,737
Bad debt reserve		(5,954)	(5,468)
Total assets	¥	5,799,005	5,646,816

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

		2011	2012
		(Yen in millions)	
Liabilities and Net Assets			
Underwriting funds:			
Outstanding claims	¥	577,668	698,949
Underwriting reserves		3,732,417	3,455,090
Total underwriting funds		4,310,086	4,154,039
Bonds issued		164,963	271,165
Other liabilities:			
Co-insurance business payable		10,329	11,656
Reinsurance business payable		36,892	45,628
Foreign reinsurance business payable		10,760	18,495
Agent business payable		12	11
Payable under securities lending transactions		26,261	-
Income taxes payable		3,959	4,355
Guarantee money		30,869	38,087
Advance received		68	69
Other payables		22,179	29,086
Suspense receipts		16,541	17,247
Liabilities related to derivative transactions		14,100	12,920
Lease obligations		1,764	2,353
Asset retirement obligations		5,186	5,229
Other liabilities		1	1
Total other liabilities		178,927	185,142
Reserve for pension and retirement benefits		79,285	83,957
Reserve for retirement benefits for officers		1,696	1,456
Accrued bonuses for employees		10,434	9,997
Reserves under the special laws:			
Reserve for price fluctuation		5,396	2,639
Total reserves under the special laws		5,396	2,639
Liabilities under acceptances and guarantees		3,211	5,737
Total liabilities	¥	4,754,002	4,714,135

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

		2011	2012
		(Yen in millions)	
Common stock	¥	139,595	139,595
Capital surplus:			
Additional paid-in capital		93,107	93,107
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
Tax-exempted reserve for accelerated depreciation		8,249	15,900
Tax-exempted special account for accelerated depreciation		6,297	-
Retained earnings brought forward		27,297	(121,482)
Total other retained earnings		325,243	177,817
Total retained earnings		371,731	224,305
Total stockholder's equity		604,434	457,008
Net unrealized gains/losses on investments in securities		434,334	459,287
Net deferred gains/losses on hedge accounting for derivatives		6,234	16,384
Total valuation and translation adjustments		440,568	475,671
Total net assets		1,045,003	932,680
Total liabilities and net assets	¥	5,799,005	5,646,816

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Income

For the fiscal years ended March 31, 2011 and 2012

		2011	2012
		(Yen in millions)	
Ordinary income and expenses			
Ordinary income:			
Underwriting income:			
Net premiums written	¥	1,232,945	1,265,997
Deposit premiums from policyholders		138,584	124,053
Investment income on deposit premiums from policyholders		51,175	47,434
Reversal of underwriting reserves		136,946	277,326
Foreign exchange gains		-	978
Other underwriting income		101	99
Total underwriting income		1,559,754	1,715,890
Investment income:			
Interest and dividends received		111,826	102,343
Investment gains on money trusts		53	141
Gains on sales of securities		50,147	41,896
Gains on redemption of securities		2,043	583
Gains on derivative transactions		8,785	5,285
Foreign exchange gains		-	9,754
Other investment income		1,298	966
Transfer of investment income on deposit premiums from policyholders		(51,175)	(47,434)
Total investment income		122,980	113,537
Other ordinary income		3,147	3,275
Total ordinary income		1,685,881	1,832,703
Ordinary expenses:			
Underwriting expenses:			
Net claims paid		765,938	1,000,737
Loss adjustment expenses		75,572	76,093
Commissions and collection expenses		214,807	221,457
Maturity refunds to policyholders		307,797	256,214
Dividends to policyholders		1,305	1,423
Provision for outstanding claims		40,752	121,280
Foreign exchange losses		1,087	-
Other underwriting expenses		348	503
Total underwriting expenses		1,407,609	1,677,711
Investment expenses:			
Investment losses on money trusts		135	18
Losses on sales of securities		11,783	22,542
Impairment losses on securities		7,596	39,206
Losses on redemption of securities		2,710	789
Foreign exchange losses		3,517	-
Other investment expenses		5,523	7,155
Total investment expenses		31,267	69,713

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Income (Continued)

		2011	2012
		(Yen in millions)	
Operating expenses and general and administrative expenses	¥	212,925	210,525
Other ordinary expenses:			
Interest expenses		1,722	2,365
Losses on bad debts		3	4
Other ordinary expenses		582	2,560
Total other ordinary expenses		2,308	4,930
Total ordinary expenses		1,654,111	1,962,880
Ordinary profit/(loss)		31,770	(130,177)
Extraordinary income and losses			
Extraordinary income:			
Gains on sales of fixed assets		10,041	694
Reversal of reserves under the special laws:			
Reversal of reserve for price fluctuation		-	2,756
Total reversal of reserves under the special laws		-	2,756
Other extraordinary income		694	-
Total extraordinary income		10,735	3,451
Extraordinary losses:			
Losses on sales of fixed assets		1,781	1,379
Impairment losses on fixed assets		3,338	3,141
Provision for reserves under the special laws:			
Provision for reserve for price fluctuation		2,706	-
Total provision for reserves under the special laws		2,706	-
Other extraordinary losses		8,417	-
Total extraordinary losses		16,245	4,521
Income/(loss) before income taxes		26,261	(131,246)
Income taxes-current		2,186	2,825
Income taxes-deferred		1,193	(3,465)
Total income taxes		3,379	(639)
Net income/(loss)	¥	22,881	(130,607)

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Changes in Net Assets

For the fiscal years ended March 31, 2011 and 2012

		2011	2012
		(Yen in millions)	
Stockholder's equity:			
Common stock:			
Beginning balance	¥	139,595	139,595
Ending balance		139,595	139,595
Capital surplus:			
Additional paid-in capital:			
Beginning balance		93,107	93,107
Ending balance		93,107	93,107
Retained earnings:			
Legal earned reserve:			
Beginning balance		46,487	46,487
Ending balance		46,487	46,487
Other retained earnings:			
Special reserve:			
Beginning balance		283,400	283,400
Ending balance		283,400	283,400
Tax-exempted reserve for accelerated depreciation:			
Beginning balance		8,304	8,249
Changes for the year:			
Provision for tax-exempted reserve for accelerated depreciation		-	7,706
Reversal of tax-exempted reserve for accelerated depreciation		(54)	(55)
Total changes for the year		(54)	7,651
Ending balance		8,249	15,900
Tax-exempted special account for accelerated depreciation:			
Beginning balance		1,269	6,297
Changes for the year:			
Provision for tax-exempted special account for accelerated depreciation		5,027	-
Reversal of tax-exempted special account for accelerated depreciation		-	(6,297)
Total changes for the year		5,027	(6,297)
Ending balance		6,297	-
Retained earnings brought forward:			
Beginning balance		63,430	27,297
Changes for the year:			
Provision for tax-exempted reserve for accelerated depreciation		-	(7,706)
Reversal of tax-exempted reserve for accelerated depreciation		54	55
Provision for tax-exempted special account for accelerated depreciation		(5,027)	-
Reversal of tax-exempted special account for accelerated depreciation		-	6,297
Dividends paid		(54,042)	(16,818)
Net income/(loss)		22,881	(130,607)
Total changes for the year		(36,133)	(148,779)
Ending balance		27,297	(121,482)

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Changes in Net Assets (Continued)

		2011	2012
		(Yen in millions)	
Total stockholder's equity:			
Beginning balance	¥	635,596	604,434
Changes for the year:			
Dividends paid		(54,042)	(16,818)
Net income/(loss)		22,881	(130,607)
Total changes for the year		(31,161)	(147,425)
Ending balance		604,434	457,008
Valuation and translation adjustments:			
Net unrealized gains/losses on investments in securities:			
Beginning balance		567,580	434,334
Changes for the year:			
Net changes of items other than stockholder's equity		(133,246)	24,953
Total changes for the year		(133,246)	24,953
Ending balance		434,334	459,287
Net deferred gains/losses on hedge accounting for derivatives:			
Beginning balance		2,138	6,234
Changes for the year:			
Net changes of items other than stockholder's equity		4,096	10,150
Total changes for the year		4,096	10,150
Ending balance		6,234	16,384
Total net assets:			
Beginning balance		1,205,315	1,045,003
Changes for the year:			
Dividends paid		(54,042)	(16,818)
Net income/(loss)		22,881	(130,607)
Net changes of items other than stockholder's equity		(129,150)	35,103
Total changes for the year		(160,311)	(112,322)
Ending balance	¥	1,045,003	932,680

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements

As of and for the fiscal years ended March 31, 2011 and 2012

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) Stocks of subsidiaries and affiliates are valued at cost determined by the moving average method.

(ii) Available for sale securities except for which fair value is deemed to be extremely difficult to determine are valued at their fiscal year-end market prices. Net unrealized gains/losses are reported as a separate component of net assets, and cost of securities sold is calculated using the moving average method.

(iii) 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.

(iv) Trading securities managed in the money trust are valued at fair value.

(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 method, or the allocation method 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 years).

(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. 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 to 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 are likely to 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, the 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 standard for self-assessment of assets. 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 obligations and plan assets at the fiscal year-end.

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

Unrecognized 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.

(iii) Reserve for retirement benefit for officers

Reserve for retirement benefits that covers the cost for services rendered through the fiscal year ended March 31, 2005 when the retirement benefits for officers were terminated is established to provide for future retirement benefits

(iv) Accrued bonuses for employees

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

(7) Hedge accounting

Gains and losses on equity forward contracts used for hedging risks of variability in fair value of stocks are accounted for under the deferred hedge accounting method. Gains and losses on currency swap contracts used for hedging risks of variability in foreign currency of foreign currency bonds, etc are accounted for under the deferred hedge accounting method. Also, certain forward exchange contracts used for the foreign currency hedging are accounted for under either the deferred hedge accounting method, the fair value hedge accounting method or the allocation method and certain currency swap used for hedging risks of variability in foreign currency of foreign currency bond issued by the Company are accounted for under 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.

Certain 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 under the deferred hedge accounting method and tested for hedge effectiveness 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 hedge effectiveness testing is performed by assessing interest rate fluctuations that may affect pricing of both the hedged items and the hedging instruments.

(8) Accounting for consumption taxes

Consumption taxes are accounted for using the tax-excluded method except for those relating to Loss adjustment expenses, Operating expenses and general and administrative expenses, which are accounted for using the tax-included 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. Additional Information

Adoption of "Accounting Standard for Accounting Changes and Error Corrections"

Effective April 1, 2011, the Company have adopted "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24, December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24, December 4, 2009). These standard and guidance are applicable for accounting changes and corrections of prior period errors made on or after April 1, 2011.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets

As of and for the fiscal years ended March 31, 2011 and 2012

March 31, 2011

1. Government bonds and stocks include those which were loaned under securities lending agreements in the amount of ¥57,226 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 ¥269 million and ¥2,065 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 (hereafter, this category is referred to as "Loans not accruing interest") 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).

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.

(2) Loans overdue for 3 months or more amounted to ¥995 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 the loans to financially impaired parties and overdue loans.

March 31, 2012

1. Stocks include those which were loaned under securities lending agreements in the amount of ¥28,825 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 ¥199 million and ¥2,172 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 (hereafter, this category is referred to as "Loans not accruing interest") 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).

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.

(2) Loans overdue for 3 months or more amounted to ¥890 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 the loans to financially impaired parties and overdue loans.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2011	March 31, 2012
(3) Restructured loans amounted to ¥2,032 million.	(3) Restructured loans amounted to ¥1,394 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. The loans to financially impaired parties, overdue loans and loans overdue for 3 months or more are excluded from this category.	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. The 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 ¥5,362 million.	(4) The total of loans to financially impaired parties, overdue loans, loans overdue for 3 months or more and restructured loans amounted to ¥4,656 million.
3. Accumulated depreciation of tangible fixed assets amounted to ¥276,511 million. The acquisition costs of certain properties were reduced by ¥16,560 million representing deferred profit on sales of other properties.	3. Accumulated depreciation of tangible fixed assets amounted to ¥281,569 million. The acquisition costs of certain properties were reduced by ¥16,471 million representing deferred profit on sales of other properties.
4. The total amounts receivable from and payable to affiliated companies amounted to ¥8,525 million and ¥17,198 million, respectively.	4. The total amounts receivable from and payable to affiliated companies amounted to ¥9,141 million and ¥13,651 million, respectively.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2011

5. Significant components of Deferred tax assets and liabilities as of March 31, 2011 are as follows (Yen in millions):

Deferred tax assets:		
Underwriting reserves	¥	193,979
Reserve for pension and retirement benefits		28,622
Investments in securities		25,297
Outstanding claims		20,568
Software		18,557
Others		32,422
Total gross deferred tax assets		319,447
Less valuation allowance		(17,388)
Total net deferred tax assets		302,059
Deferred tax liabilities:		
Net unrealized gains/losses on investments in securities		(245,374)
Others		(14,311)
Total gross deferred tax liabilities		(259,686)
Total deferred tax assets net of deferred tax liabilities	¥	47,372

March 31, 2012

5. Significant components of Deferred tax assets and liabilities as of March 31, 2012 are as follows (Yen in millions):

Deferred tax assets:		
Underwriting reserves	¥	172,443
Tax loss carried forward		47,165
Investments in securities		30,290
Reserve for pension and retirement benefits		26,993
Software		15,754
Others		36,763
Total gross deferred tax assets		329,411
Less valuation allowance		(25,491)
Total net deferred tax assets		303,919
Deferred tax liabilities:		
Net unrealized gains/losses on investments in securities		(206,205)
Others		(16,710)
Total gross deferred tax liabilities		(222,916)
Total deferred tax assets net of deferred tax liabilities	¥	81,002

March 31, 2012

6. Effects on deferred tax assets and liabilities by changes in the corporate income tax rates are as follows:

Following the promulgation on December 2, 2011 of the "Act for partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economics and Social Structures" (Act No.114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011), corporation tax rates will be reduced gradually and surtaxes for reconstruction funding after the Great East Japan Earthquake will be imposed for fiscal years beginning on or after April 1, 2012. As a result of these changes, the effective statutory tax rates which are used to measure deferred tax assets and liabilities, will be changed from 36.1% to 33.2% for temporary differences that are expected to be reversed during the fiscal years beginning within the period from April 1, 2012 to March 31, 2015 and will be changed to 30.7% for the temporary differences that are expected to be reversed in the fiscal years beginning on or after April 1, 2015. Due to the changes in the corporation tax rates, net Deferred tax assets and Underwriting reserves decreased by ¥5,173 million and ¥7,277 million, respectively, Net unrealized gains on investments in securities, Net deferred gains on hedge accounting for derivatives and Income taxes-deferred increased by ¥34,037 million, ¥1,105 million and ¥40,315 million, respectively, and Net loss increased by ¥33,037 million.

March 31, 2011

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 ¥32,347 million.

(2) Arrangements similar to guarantee

The Company executes net worth maintenance agreements on behalf of Mitsui Sumitomo MetLife Insurance Co., Ltd. ("MSML") and six other foreign subsidiaries. MSML is an affiliated company of MS&AD Insurance Group Holdings, Inc. ("MS&AD") 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.

The Company and MS&AD 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, 2011 were ¥3,245,476 million (including underwriting funds in the amount of ¥3,166,733 million) and ¥3,440,940 million, respectively.
None of these companies were in a triggering situation mentioned above as of March 31, 2011.

7. The carrying values of the investments in equity and capital of affiliated companies amounted to ¥331,447 million and ¥15,733 million, respectively.

8. Investments in securities of ¥83,613 million are pledged as collateral primarily for overseas operations and Real Time Gross Settlement system of current account at the Bank of Japan.

March 31, 2012

7. 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 ¥35,146 million.

(2) Arrangements similar to guarantee

The Company executes net worth maintenance agreements on behalf of Mitsui Sumitomo Primary Life Insurance Co., Ltd. ("MSPL") and six other foreign subsidiaries. MSPL is a subsidiary of MS&AD Insurance Group Holdings, Inc. ("MS&AD") 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.

The Company and MS&AD are jointly obligated for the agreement for MSPL. The aggregated amount of liabilities and assets of the subsidiaries as of March 31, 2012 were ¥3,348,929 million (including underwriting funds in the amount of ¥3,306,090 million) and ¥3,541,227 million, respectively.
None of these companies were in a triggering situation mentioned above as of March 31, 2012.

8. The carrying values of the investments in equity and capital of affiliated companies amounted to ¥383,834 million and ¥15,743 million, respectively.

9. Investments in securities of ¥85,842 million are pledged as collateral primarily for overseas operations and Real Time Gross Settlement system of current account at the Bank of Japan.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2011	March 31, 2012

March 31, 2011

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

(1) Details of outstanding claims:

Gross outstanding claims (except for (a))	¥	675,244
Reinsurance recoverable on unpaid losses		(158,094)
Net		517,150
Outstanding claims relating to earthquake and compulsory automobile liability insurance (a)		60,518
Total	¥	577,668

(2) Details of underwriting reserves:

Gross ordinary underwriting reserves	¥	1,055,101
Reinsurance recoverable on underwriting reserves		(39,614)
Net		1,015,487
Gross refund reserves		1,847,433
Reinsurance recoverable on refund reserves		(11)
Net		1,847,422
Other underwriting reserves		869,507
Total	¥	3,732,417

10. Net assets per share as of March 31, 2011 were ¥744.09. No deductions from net assets were applicable in its computation. Outstanding common shares as of March 31, 2011 were 1,404,402 thousand shares.

March 31, 2012

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

(1) Details of outstanding claims:

Gross outstanding claims (except for (a))	¥	927,415
Reinsurance recoverable on unpaid losses		(280,241)
Net		647,173
Outstanding claims relating to earthquake and compulsory automobile liability insurance (a)		51,775
Total	¥	698,949

(2) Details of underwriting reserves:

Gross ordinary underwriting reserves	¥	1,080,726
Reinsurance recoverable on underwriting reserves		(43,344)
Net		1,037,381
Gross refund reserves		1,752,597
Reinsurance recoverable on refund reserves		(7)
Net		1,752,590
Other underwriting reserves		665,118
Total	¥	3,455,090

11. Net assets per share as of March 31, 2012 were ¥664.11. No deductions from net assets were applicable in its computation. Outstanding common shares as of March 31, 2012 were 1,404,402 thousand shares.

March 31, 2012

12. Significant subsequent event that occurred after the balance sheet date and would have a material effect on the financial position or the results of operations of the Company for the future periods is as follows:

Strategic alliance with major life insurer in India

On April 12, 2012 the Company reached an agreement to invest and form a strategic alliance with Max New York Life Insurance Company Limited ("Max New York Life"), a major Indian life insurer under one of the largest Indian business groups, Max India. The details are as follows:

(1) Purpose of the alliance

March 31, 2012

The Company intends to expand the business base in the Asian market, which is rapidly growing, through the entry into the life insurance market in India.

(2) Overview of the alliance

The Company will acquire 26% of the outstanding shares of Max New York Life (unlisted) held by US-based New York Life, provided that approval is obtained from the Indian insurance supervisory authorities. The amount to be invested is 27.3 billion rupees (approximately ¥45.0 billion). This ownership is the maximum level allowed for foreign investment in Indian life insurance companies.
(Exchange rate: INR1=¥1.66).

Upon making the investment, the Company will also dispatch officers and employees to Max New York Life, (two of whom are scheduled to be appointed as directors) to actively participate in the management. The Company will also provide a variety of expertise in the life insurance business, accumulated inside and outside Japan, in an effort to meet the life insurance and annuity insurance needs of multinational corporations entering India, along with the sale of life insurance products to the wealthy, who make up Max New York Life's existing clientele

(3) Date of the alliance

The Company plans to launch the alliance in this summer, provided that approval is obtained from the Indian insurance supervisory authorities.

March 31, 2011

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

(1) Details of retirement benefit obligations:

Retirement benefit obligations	¥	273,022
Plan assets		(158,726)
Unfunded retirement benefit obligations		114,296
Unrecognized actuarial losses		(35,010)
Reserve for pension and retirement benefits	¥	79,285

(2) Actuarial assumptions for calculation of retirement benefit obligations, 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 unrecognized prior service costs	4 years
Amortization period for unrecognized actuarial gains and losses:	10 years

12. The Company provides guarantees to the transactions of a limited partnership entity. Aggregate net present value of those transactions was ¥73,106 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.

13. Unutilized portion of commitment lines given to third parties amounted to ¥1,788 million.

March 31, 2012

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

(1) Details of retirement benefit obligations:

Retirement benefit obligations	¥	275,693
Plan assets		(165,008)
Unfunded retirement benefit obligations		110,684
Unrecognized actuarial losses		(26,727)
Reserve for pension and retirement benefits	¥	83,957

(2) Actuarial assumptions for calculation of retirement benefit obligations, 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 unrecognized prior service costs	4 years
Amortization period for unrecognized actuarial gains and losses:	10 years

14. The Company provides guarantees to the transactions of a limited partnership entity. Aggregate net present value of those transactions was ¥182,250 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.

15. Unutilized portion of commitment lines given to third parties amounted to ¥1,349 million.

March 31, 2011	March 31, 2012
14. "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. "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.
15. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.	17. 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 fiscal years ended March 31, 2011 and 2012

March 31, 2011

1. The aggregate amounts of income and expenses resulting from transactions with affiliated companies amounted to ¥37,826 million and ¥63,321 million, respectively.

2.

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

Gross premiums written	¥	1,449,089
Reinsurance premiums ceded		216,143
Net	¥	1,232,945

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

Gross claims paid	¥	926,834
Claim recoveries from ceded reinsurance		160,896
Net	¥	765,938

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

Commissions and collection expenses paid	¥	235,212
Reinsurance commissions received		20,405
Net	¥	214,807

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

Gross provision for outstanding claims (except for (a))	¥	137,549
Less reinsurance recoverable on unpaid losses		(108,805)
Net		28,743
Provision for outstanding claims relating to earthquake and compulsory automobile liability insurance (a)		12,008
Total	¥	40,752

March 31, 2012

1. The aggregate amounts of income and expenses resulting from transactions with affiliated companies amounted to ¥41,978 million and ¥58,205 million, respectively.

2.

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

Gross premiums written	¥	1,515,023
Reinsurance premiums ceded		249,025
Net	¥	1,265,997

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

Gross claims paid	¥	1,513,353
Claim recoveries from ceded reinsurance		512,615
Net	¥	1,000,737

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

Commissions and collection expenses paid	¥	243,365
Reinsurance commissions received		21,908
Net	¥	221,457

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

Gross provision for outstanding claims (except for (a))	¥	252,170
Less reinsurance recoverable on unpaid losses		(122,147)
Net		130,023
Reversal of outstanding claims relating to earthquake and compulsory automobile liability insurance (a)		(8,743)
Total	¥	121,280

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

March 31, 2011

(5) Details of Provision for (reversal of) underwriting reserves are as follows (Yen in millions):

Gross provision for ordinary underwriting reserves	¥	13,650
Less reinsurance recoverable on underwriting reserves		(2,037)
Net		11,613
Reversal of refund reserves		(124,513)
Less reinsurance recoverable on refund reserves		(0)
Net		(124,513)
Reversal of other underwriting reserves		(24,046)
Total	¥	(136,946)

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

Interest on deposits and savings	¥	2,115
Interest on call loans		23
Interest on securities purchased under resale agreements		21
Interest on monetary claims bought		1,660
Interest and dividends on investments in securities		87,382
Interest on loans		12,912
Rental income on properties		6,708
Other interest		1,002
Total	¥	111,826

3. The total valuation gains and losses included in the investment gains and losses on money trusts is a gain in the amount of ¥24 million. The total valuation gains and losses included in the gains and losses on derivative transactions is a gain in the amount of ¥2,108 million.

March 31, 2012

(5) Details of Provision for (reversal of) underwriting reserves are as follows (Yen in millions):

Gross provision for ordinary underwriting reserves	¥	25,625
Less reinsurance recoverable on underwriting reserves		(3,730)
Net		21,894
Reversal of refund reserves		(94,836)
Less reinsurance recoverable on refund reserves		(3)
Net		(94,832)
Reversal of other underwriting reserves		(204,389)
Total	¥	(277,326)

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

Interest on deposits and savings	¥	3,148
Interest on call loans		27
Interest on securities purchased under resale agreements		40
Interest on monetary claims bought		1,553
Interest and dividends on investments in securities		79,578
Interest on loans		11,568
Rental income on properties		5,865
Other interest		561
Total	¥	102,343

3. The total valuation gains and losses included in the investment gains and losses on money trusts is a gain in the amount of ¥64 million. The total valuation gains and losses included in the gains and losses on derivative transactions is a loss in the amount of ¥285 million.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

March 31, 2011

4. Net income per share for the fiscal year ended March 31, 2011 was ¥16.29.

   Net income per share is computed based on the following figures: Net income and net income available to common stockholders, ¥22,881 million; and Average outstanding common shares during the fiscal 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. Other extraordinary losses include business integration costs (¥ 4,025 million), losses on cumulative adjustment for the adoption of "Accounting Standard for Asset Retirement Obligations" (¥ 2,256 million), and contributions relating to the building construction (¥2,136 million).

6. Costs for retirement benefits included in Loss adjustment expenses, Operating expenses and general and administrative expenses are as follows (Yen in millions):

Service costs	¥	10,561
Interest cost		5,286
Expected return on plan assets		(4,562)
Amortization of unrecognized actuarial losses		6,103
Net periodic pension cost		17,388
Contributions paid to defined contribution plan		1,640
Total	¥	19,029

March 31, 2012

4. Net loss per share for the fiscal year ended March 31, 2012 was ¥92.99.

   Net loss per share is computed based on the following figures: Net loss and net loss available to common stockholders, ¥130,607 million; and Average outstanding common shares during the fiscal year, 1,404,402 thousand shares. Earnings per share after adjustment for dilutive effect of shares is not presented as no dilutive securities exist and the Company recognized net loss for the fiscal year ended March 31, 2012.

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	¥	10,939
Interest cost		5,447
Expected return on plan assets		(4,761)
Amortization of unrecognized actuarial losses		6,497
Net periodic pension cost		18,123
Contributions paid to defined contribution plan		1,635
Total	¥	19,758

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

March 31, 2011

7. 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%
(Reconciliation)	
Tax credit for dividends received	(22.4%)
Deduction for foreign taxes	(3.2%)
Entertainment and other expenses not deductible for tax purposes	2.8%
Decrease in valuation allowances	(2.3%)
Others	1.9%
Effective income tax rate	12.9%

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

Use	Asset category	Description of assets	Impairment losses	
Rental properties	Land and buildings	6 properties, including buildings for rent in Aichi	Land	¥ 234
			Buildings	2,773
			Total	¥3,007
Idle real estate and real estate for sale	Land and buildings	6 properties, including office buildings in Hiroshima	Land	¥ 223
			Buildings	107
			Total	¥ 330

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 are grouped on an individual basis. Carrying amounts of the above mentioned assets were reduced to their realizable values in view of falling property values or being unused, and the resulting decreases in the carrying amounts were recorded as an impairment loss in the aggregate amount of ¥ 3,338 million in Extraordinary losses.

The recoverable amounts of the assets concerned are determined at net realizable value. The net realizable values are measured based on the appraisal values by independent appraisers.

March 31, 2012

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

Use	Asset category	Description of assets	Impairment losses	
Rental properties	Building	Building for rent in Aomori	Building	¥ 384
Idle real estate and real estate for sale	Land and buildings	8 properties, including office buildings in Tokyo	Land	¥ 36
			Buildings	2,719
			Total	¥2,756

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 are grouped on an individual basis. Carrying amounts of the above mentioned assets were reduced to their realizable values in view of falling property values or being scheduled for sale, and the resulting decreases in the carrying amounts were recorded as an impairment loss in the aggregate amount of ¥3,141 million in Extraordinary losses.

The recoverable amounts of the assets concerned are determined at net realizable value. The net realizable values are measured based on the estimated sales amounts or the appraisal values by independent appraisers.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

March 31, 2011

9. Related party transactions are as follows (Yen in millions):

Category	Name of related party	Ownership	Business relationship
subsidiaries	MS&AD Loan Service Co., Ltd.	As a owner Direct 12.6% Indirect 40.9%	Dispatching officer positions Providing credit guarantees on the Company's consumer loans Administration of the Company's housing loan guarantee insurance

Description of transactions	Trans-action amount	Account	Ending Balances
Guarantees of third-party liabilities related to the transactions with the third parties	¥115,745	-	-

The Company has been provided with guarantees on its mortgage loans and other loans to third parties by MS&AD Loan Service Co., Ltd. Transaction amount represents guaranteed amount of liabilities outstanding as of March 31, 2011.

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

The Company entered into a comprehensive guarantee agreement with MS&AD 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, 2012

7. Related party transactions are as follows (Yen in millions):

Category	Name of related party	Ownership	Business relationship
Affiliated company	MS&AD Loan Service Co., Ltd.	As a owner Direct 12.6% Indirect 25.8%	Dispatching officer positions Providing credit guarantees on the Company's consumer loans Administration of the Company's housing loan guarantee insurance

Description of transactions	Trans-action amount	Account	Ending Balances
Guarantees of third-party liabilities related to the transactions with the third parties	¥112,794	-	-

The Company has been provided with guarantees on its mortgage loans and other loans to third parties by MS&AD Loan Service Co., Ltd. Transaction amount represents guaranteed amount of liabilities outstanding as of March 31, 2012.

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

The Company entered into a comprehensive guarantee agreement with MS&AD 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, 2011	March 31, 2012
10. "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.	8. "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.
11. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.	9. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Changes in Net Assets

For the fiscal years ended March 31, 2011 and 2012

March 31, 2011

1. Type and number of shares issued and treasury stock

(Shares in thousands)

	Beginning balance	Increase	Decrease	Ending Balance
Issued:				
Common shares	1,404,402	-	-	1,404,402
Total	1,404,402	-	-	1,404,402

(Note) There is no treasury stock requiring disclosure.

2. Dividends

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

Resolution	Type of shares	Aggregate amount of dividends	Dividends per share	Date of record	Effective date
Meeting of board of directors held on May 20, 2010	Common shares	¥ 14,000	¥ 9.96	March 31, 2010	June 1, 2010
Meeting of board of directors held on June 29, 2010	Common shares	¥ 1,550	¥ 1.10	-	July 2, 2010
Meeting of board of directors held on August 12, 2010	Common shares	¥ 8,300	¥ 5.90	-	August 13, 2010
Meeting of board of directors held on November 19, 2010	Common shares	¥ 4,640	¥ 3.30	-	December 1, 2010

Resolution	Type of shares	Type of assets for dividends and their book value		Dividends per share	Date of record	Effective date
Meeting of board of directors held on September 30, 2010	Common shares	Common shares of Inter Risk Research Institute and Consulting, Inc., MS&AD Staffing Service Company, Limited, MS&AD Research Institute Company, Limited and MS&AD Business Support Company, Limited	¥ 154	¥ 0.11	-	October 1, 2010
Meeting of board of directors held on February 28, 2011	Common shares	Treasury Discount Bills	¥ 25,398	¥ 18.08	-	March 16, 2011

March 31, 2012

1. Type and number of shares issued and treasury stock

(Shares in thousands)

	Beginning balance	Increase	Decrease	Ending Balance
Issued:				
Common shares	1,404,402	-	-	1,404,402
Total	1,404,402	-	-	1,404,402

(Note) There is no treasury stock requiring disclosure.

2. Dividends

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

Resolution	Type of shares	Type of assets for dividends and their book value		Dividends per share	Date of record	Effective date
Meeting of board of directors held on March 30, 2011	Common shares	Common shares of MS&AD Business Service Company, Limited	¥ 30	¥ 0.02	-	April 1, 2011
Meeting of board of directors held on May 19, 2011	Common shares	Treasury Discount Bills	¥ 11,198	¥ 7.97	March 31, 2011	June 10, 2011
Meeting of board of directors held on September 30, 2011	Common shares	Common shares of MS&AD Systems Company, Limited.	¥ 100	¥ 0.07	-	October 1, 2011
Meeting of board of directors held on November 18, 2011	Common shares	Treasury Discount Bills	¥ 5,489	¥ 3.90	-	November 18, 2011

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Changes in Net Assets (Continued)

March 31, 2011

(2) Dividends to be made effective after March 31,2011 for which the date of record is in the fiscal year ended March 31, 2011 (Yen in millions, except for dividends per share in Yen)

Resolution	Type of shares	Type of assets for dividends and their book value		Source of dividends	Dividends per share	Date of record	Effective date
Meeting of board of directors held on May 19, 2011	Common share	Treasury Discount Bills	¥ 11,198	Retained earnings	¥ 7.97	March 31, 2011	June 10, 2011

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

March 31, 2012

(2) Dividends to be made effective after March 31,2012 for which the date of record is in the fiscal year ended March 31, 2012 (Yen in millions, except for dividends per share in Yen)

Resolution	Type of shares	Type of assets for dividends and their book value		Source of dividends	Dividends per share	Date of record	Effective date
Meeting of board of directors held on May 18, 2012	Common share	Treasury Discount Bills	¥ 11,199	Retained earnings	¥ 7.97	March 31, 2012	June 8, 2012

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

KPMG

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Consolidated Financial Statements - March 31, 2011 and 2012

(With Independent Auditor's Report Thereon)

Ichiro Iijima
Director, Vice President Executive Officer
Mitsui Sumitomo Insurance Company, Limited

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

KPMG

Independent Auditor's Report

To the Board of Directors of Mitsui Sumitomo Insurance Company, Limited:

We have audited the accompanying consolidated financial statements of Mitsui Sumitomo Insurance Company, Limited and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2011 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and the related notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mitsui Sumitomo Insurance Company, Limited and its consolidated subsidiaries as at March 31, 2011 and 2012, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

June 19, 2012
Tokyo, Japan

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Consolidated Balance Sheets

As of March 31, 2011 and 2012

		2011	2012
		(Yen in millions)	
Assets			
Cash, deposits and savings	¥	306,669	448,826
Call loans		52,000	22,000
Receivables under resale agreements		11,998	41,680
Monetary claims bought		115,190	85,482
Money trusts		9,676	9,817
Investments in securities		4,089,812	3,769,220
Loans		687,286	624,376
Tangible fixed assets:			
Land		98,813	97,907
Buildings		121,646	145,963
Construction in progress		12,001	680
Other tangible fixed assets		16,907	16,618
Total tangible fixed assets		249,369	261,170
Intangible fixed assets:			
Software		10,370	10,787
Goodwill		58,177	52,633
Other intangible fixed assets		3,496	14,354
Total intangible fixed assets		72,044	77,775
Other assets		456,241	510,361
Deferred tax assets		49,077	87,002
Customers' liabilities under acceptances and guarantees		-	3,000
Bad debt reserve		(7,786)	(6,620)
Total assets	¥	6,091,581	5,934,096

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Consolidated Balance Sheets (Continued)

		2011	2012
		(Yen in millions)	
Liabilities and Net Assets			
Underwriting funds:			
Outstanding claims	¥	761,045	881,957
Underwriting reserves		3,817,209	3,535,209
Total underwriting funds		4,578,254	4,417,166
Bonds issued		164,963	271,165
Other liabilities		210,842	216,510
Reserve for pension and retirement benefits		79,939	84,500
Reserve for retirement benefits for officers		1,696	1,456
Accrued bonuses for employees		11,946	11,350
Reserves under the special laws:			
Reserve for price fluctuation		5,396	2,639
Total reserves under the special laws		5,396	2,639
Deferred tax liabilities		3,822	3,498
Liabilities under acceptances and guarantees		-	3,000
Total liabilities		5,056,862	5,011,288
Common stock	¥	139,595	139,595
Capital surplus		93,107	93,107
Retained earnings		402,749	270,696
Total stockholders' equity		635,452	503,399
Net unrealized gains/losses on investments in securities		439,903	464,851
Net deferred gains/losses on hedge accounting for derivatives		6,234	16,384
Foreign currency translation adjustments		(61,551)	(76,138)
Total accumulated other comprehensive income		384,586	405,097
Minority interests		14,679	14,310
Total net assets		1,034,719	922,807
Total liabilities and net assets	¥	6,091,581	5,934,096

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Consolidated Statements of Income

For the fiscal years ended March 31, 2011 and 2012

	2011	2012
	(Yen in millions)	
Ordinary income and expenses		
Ordinary income:		
Underwriting income:		
Net premiums written	¥ 1,392,072	1,425,176
Deposit premiums from policyholders	138,584	124,053
Investment income on deposit premiums from policyholders	51,175	47,434
Reversal of underwriting reserves	139,353	276,562
Other underwriting income	2,046	3,184
Total underwriting income	1,723,231	1,876,411
Investment income:		
Interest and dividends received	120,653	111,339
Investment gains on money trusts	53	141
Gains on sales of securities	53,936	44,349
Gains on redemption of securities	2,044	589
Gains on derivative transactions	9,119	5,194
Other investment income	2,839	11,266
Transfer of investment income on deposit premiums from policyholders	(51,175)	(47,434)
Total investment income	137,472	125,447
Other ordinary income		
Gains from equity method investments	237	655
Other ordinary income	4,408	5,418
Total other ordinary income	4,645	6,074
Total ordinary income	1,865,349	2,007,933
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	857,438	1,099,742
Loss adjustment expenses	79,559	80,237
Commissions and collection expenses	235,957	241,929
Maturity refunds to policyholders	307,797	256,214
Dividends to policyholders	1,305	1,423
Provision for outstanding claims	51,894	132,429
Other underwriting expenses	2,842	1,787
Total underwriting expenses	1,536,795	1,813,764
Investment expenses:		
Investment losses on money trusts	135	18
Losses on sales of securities	12,690	24,918
Impairment losses on securities	8,431	3,126
Losses on redemption of securities	2,785	877
Other investment expenses	10,361	7,325
Total investment expenses	34,404	36,265

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Consolidated Statements of Income (Continued)

		2011	2012
		(Yen in millions)	
Operating expenses and general and administrative expenses	¥	254,519	253,802
Other ordinary expenses:			
Interest expenses		1,727	2,414
Provision for bad debt reserve		102	-
Losses on bad debts		30	99
Other ordinary expenses		1,181	3,501
Total other ordinary expenses		3,041	6,015
Total ordinary expenses		1,828,760	2,109,848
Ordinary profit/(loss)		36,589	(101,915)
Extraordinary income and losses			
Extraordinary income:			
Gains on sales of fixed assets		10,050	747
Reversal of reserves under the special laws:			
Reversal of reserve for price fluctuation		-	2,756
Total reversal of reserves under the special laws		-	2,756
Other extraordinary income		1,639	-
Total extraordinary income		11,690	3,503
Extraordinary losses:			
Losses on sales of fixed assets		1,801	1,385
Impairment losses on fixed assets		3,338	3,141
Provision of reserves under the special laws:			
Provision of reserve for price fluctuation		2,706	-
Total provision of reserves under the special laws		2,706	-
Other extraordinary losses		8,418	7,229
Total extraordinary losses		16,265	11,757
Income/(loss) before income taxes		32,013	(110,168)
Income taxes-current		5,365	6,914
Income taxes-deferred		533	(3,270)
Total income taxes		5,899	3,644
Income/(loss) before minority interests		26,113	(113,812)
Minority interests		739	1,424
Net income/(loss)	¥	25,373	(115,237)

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Consolidated Statements of Comprehensive Income

For the fiscal years ended March 31, 2011 and 2012

		2011	2012
		(Yen in millions)	
Income before minority interests	¥	26,113	(113,812)
Other comprehensive income:			
Net unrealized gains/losses on investments in securities		(134,260)	25,100
Net deferred gains/losses on hedge accounting for derivatives		4,096	10,150
Foreign currency translation adjustments		(22,463)	(11,977)
Share of other comprehensive income of equity investees accounted for by equity method		(93)	(3,766)
Total other comprehensive loss		(152,720)	19,506
Total comprehensive loss	¥	(126,607)	(94,306)
Allocation:			
Comprehensive loss attributable to shareholder of the parent	¥	(126,113)	(94,725)
Comprehensive loss attributable to minority interests		(494)	419

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Consolidated Statements of Changes in Net Assets

For the fiscal years ended March 31, 2011 and 2012

		2011	2012
		(Yen in millions)	
Stockholder's equity:			
Common stock:			
Beginning balance	¥	139,595	139,595
Ending balance		139,595	139,595
Capital surplus:			
Beginning balance		93,107	93,107
Ending balance		93,107	93,107
Retained earnings:			
Beginning balance		433,290	402,749
Changes for the year:			
Dividends paid		(54,042)	(16,818)
Changes in the scope of consolidation		(1,871)	-
Increase due to mergers in subsidiaries		-	2
Net income/(loss)		25,373	(115,237)
Total changes for the year		(30,540)	(132,053)
Ending balance		402,749	270,696
Total stockholder's equity:			
Beginning balance		665,993	635,452
Changes for the year:			
Dividends paid		(54,042)	(16,818)
Changes in the scope of consolidation		(1,871)	-
Increase due to mergers in subsidiaries		-	2
Net income/(loss)		25,373	(115,237)
Total changes for the year		(30,540)	(132,053)
Ending balance		635,452	503,399
Accumulated other comprehensive income:			
Net unrealized gains/losses on investments in securities:			
Beginning balance		574,244	439,903
Changes for the year;			
Net changes of items other than stockholder's equity		(134,340)	24,947
Total changes for the year		(134,340)	24,947
Ending balance		439,903	464,851
Net deferred gains/losses on hedge accounting for derivatives:			
Beginning balance		2,138	6,234
Changes for the year:			
Net changes of items other than stockholder's equity		4,096	10,150
Total changes for the year		4,096	10,150
Ending balance		6,234	16,384

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Consolidated Statements of Changes in Net Assets (Continued)

		2011	2012
		(Yen in millions)	
Foreign currency translation adjustments:			
Beginning balance	¥	(40,309)	(61,551)
Changes for the year:			
Net changes of items other than stockholder's equity		(21,242)	(14,586)
Total changes for the year		(21,242)	(14,586)
Ending balance		(61,551)	(76,138)
Total accumulated other comprehensive income:			
Beginning balance		536,072	384,586
Changes for the year:			
Net changes of items other than stockholder's equity		(151,486)	20,511
Total changes for the year		(151,486)	20,511
Ending balance		384,586	405,097
Minority interests:			
Beginning balance		4,188	14,679
Changes for the year:			
Net changes of items other than stockholder's equity		10,491	(369)
Total changes for the year		10,491	(369)
Ending balance		14,679	14,310
Total net assets:			
Beginning balance		1,206,255	1,034,719
Changes for the year:			
Dividends paid		(54,042)	(16,818)
Changes in the scope of consolidation		(1,871)	-
Increase due to mergers in subsidiaries		-	2
Net income/(loss)		25,373	(115,237)
Net changes of items other than stockholder's equity		(140,994)	20,142
Total changes for the year		(171,535)	(111,911)
Ending balance	¥	1,034,719	922,807

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Consolidated Statements of Cash Flows

For the fiscal years ended March 31, 2011 and 2012

		2011	2012
		(Yen in millions)	
I. Cash flows from operating activities:			
Income (loss) before income taxes	¥	32,013	(110,168)
Depreciation		20,106	19,273
Impairment losses on fixed assets		3,338	3,141
Amortization of goodwill		3,404	3,789
Increase in outstanding claims		42,751	131,803
Decrease in underwriting reserves		(138,353)	(276,583)
Decrease in bad debt reserve		(1,106)	(1,081)
Increase (decrease) in reserve for pension and retirement benefits		(1,993)	4,424
Decrease in reserve for retirement benefits for officers		(307)	(240)
Increase (decrease) in accrued bonuses for employees		566	(507)
Increase (decrease) in reserve for price fluctuation		2,706	(2,756)
Interest and dividends income		(120,653)	(111,339)
Investment related gains		(32,073)	(16,017)
Derivative transactions related gains		(9,119)	(5,194)
Interest expenses		1,727	2,414
Foreign exchange losses (gains)		3,456	(14,653)
Losses (gains) on disposal of tangible fixed assets		(8,249)	647
Gains from equity method investments		(237)	(655)
Increase in other assets		(21,049)	(51,441)
Increase in other liabilities		667	34,489
Others, net		8,333	16,378
Subtotal		(214,070)	(374,277)
Interest and dividends received		120,418	109,006
Interest paid		(1,737)	(2,179)
Income taxes paid		(20,177)	(8,292)
Refund of income taxes		-	7,737
Net cash used in operating activities (a)		(115,567)	(268,005)

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Consolidated Statements of Cash Flows (Continued)

		2011	2012
		(Yen in millions)	
II. Cash flows from investing activities:			
Net increase in deposits and savings	¥	(19,174)	(24,563)
Proceeds from sales and redemption of monetary claims bought		4,578	5,950
Purchase of money trusts		(3,500)	(1,525)
Proceeds from sales of money trusts		3,568	1,500
Purchase of securities		(762,400)	(670,998)
Proceeds from sales and redemption of securities		794,964	937,778
Investment in loans		(128,357)	(124,163)
Collection of loans		158,522	186,365
Increase (decrease) in cash received under securities lending transactions		26,261	(26,261)
Proceeds from acquisition of besiness		3,995	-
Others, net		5,745	4,546
Subtotal (b)		84,205	288,627
(a + b)		(31,362)	20,622
Acquisition of tangible fixed assets		(16,853)	(33,773)
Proceeds from sales of tangible fixed assets		12,400	1,914
Acquisition of intangible fixed assets		(4,838)	(14,852)
Others, net		(1,614)	(624)
Net cash provided by investing activities		73,298	241,291
III. Cash flows from financing activities:			
Proceeds from issuance of bonds		69,986	104,601
Dividends paid to shareholders		(28,490)	-
Dividends paid to minority shareholders		(334)	(788)
Others, net		(707)	(1,197)
Net cash provided by (used in) financing activities		40,454	102,614
IV. Effect of exchange rate changes on cash and cash equivalents		(12,874)	10,320
V. Net change in cash and cash equivalents		(14,688)	86,222
VI. Cash and cash equivalents at the beginning of the fiscal year		361,067	372,047
VII. Increase in cash and cash equivalents relating to comprehensive transfer of insurance contracts		27,479	-
VIII. Effect of change in scope of consolidation		(1,811)	-
IX. Cash and cash equivalents at the end of the fiscal year	¥	372,047	458,269

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Consolidated Financial Statements

As of and for the fiscal years ended March 31, 2011 and 2012

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.

2. Scope 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.

MS Financial Reinsurance Limited, a newly established subsidiary, has been included in the scope of consolidation from the fiscal year ended March 31, 2012.

(2) Unconsolidated subsidiaries

Major unconsolidated subsidiaries are as follows:

MITSUI SUMITOMO INSURANCE Claims Adjusting Company, Limited

These subsidiaries are not included in the scope of consolidation due to their immaterial effects that would not affect reasonable judgment 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. Application of equity method

(1) Number of affiliate companies accounted for under the equity method 5 companies

Major companies accounted for under the equity method are as follows:

Sumitomo Mitsui Asset Management Company, Limited
PT. Asuransi Jiwa Sinarmas MSIG

PT. Asuransi Jiwa Sinarmas MSIG became an equity method affiliate during the fiscal year ended March 31, 2012 due to acquisition of its shares.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Consolidated Financial Statements (Continued)

(2) Other affiliate companies, including unconsolidated subsidiaries (e.g. BPI/MS Insurance Corporation), are not accounted for under the equity method because their effects on consolidated Net income and Retained earnings are immaterial individually and in aggregate.

4. The fiscal year of consolidated subsidiaries

The 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 (except for which fair value is deemed to be extremely difficult to determine) are valued at their fiscal year-end market prices. Net unrealized gains/losses are reported as a separate component of net assets, and cost of securities sold 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) Trading securities managed in the money trust are valued at fair value.

(2) Valuation policies and methods of derivative financial instruments are as follows:

Derivative financial instruments are valued at fair value. Foreign exchange contracts and interest rate swaps that meet certain criteria are accounted for under exceptional method or the allocation method 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 methods of assets are as follows:

(i) Depreciation of tangible fixed assets held by the Company and domestic consolidated 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 consolidated subsidiaries is mainly computed using the straight-line method.

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

(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 to 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 are likely to 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, the 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 standard for self-assessment of assets. 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 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 obligations and plan assets at the fiscal year-end.

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

Unrecognized 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 obligations of some consolidated subsidiaries, the Company uses the simplified method.

(iii) Reserve for retirement benefits for officers

Reserve for retirement benefits that covers the cost for services rendered through the fiscal 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 for employees

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

(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 fiscal 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 fiscal year-ends, and income and expenses are translated into Japanese yen using the average exchange rate during the fiscal year and translation differences are included in Foreign currency translation adjustments and Minority interests.

(6) Accounting for consumption taxes

Consumption taxes are accounted for using the tax-excluded method except for those relating to loss adjustment expenses, operating expenses and general and administrative expenses, which are accounted for using the tax-included method. Non-deductible consumption taxes relating to assets are included in Other assets and amortized in equal installments over a period of five years.

(7) Hedge accounting

Gains and losses on equity forward contracts used for hedging risks of variability in fair value of stocks are accounted for under the deferred hedge accounting method. Gains and losses on currency swap contracts used for hedging risks of variability in foreign currency of foreign currency bonds, etc. are accounted for under the deferred hedge accounting method. Also, certain forward exchange contracts used for the foreign currency hedging are accounted for under either the deferred hedge accounting method, the fair value hedge accounting method or the allocation method, and certain currency swap used for hedging risks of variability in foreign currency of foreign currency bond issued by the Company are accounted for under 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.

Certain 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 under the deferred hedge accounting method and tested for hedge effectiveness 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 hedge effectiveness testing is performed by assessing interest rate fluctuations that may affect pricing of both the hedged items and the hedging instruments.

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

7. Additional Information

Adoption of "Accounting Standard for Accounting Changes and Error Corrections"

Effective April 1, 2011, the Company and its subsidiaries have adopted "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24, December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24, issued on December 4, 2009). These standard and guidance are applicable for accounting changes and corrections of prior period errors made on or after April 1, 2011.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets

As of March 31, 2011 and 2012

March 31, 2011

1. Accumulated depreciation of tangible fixed assets amounted to ¥285,808 million. The acquisition costs of certain properties were reduced by ¥16,560 million representing deferred profit on sales of other properties.

2. Carrying amount of equity investments in unconsolidated subsidiaries and affiliates are as follows (Yen in millions):

Investments in securities (Domestic Stocks)	¥11,245
Investments in securities (Foreign securities)	¥32,647
Investments in securities (Other securities)	¥6,713

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 ¥269 million and ¥2,065 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 (hereafter, this category is referred to as "Loans not accruing interest") 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)..

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

March 31, 2012

1. Accumulated depreciation of tangible fixed assets amounted to ¥290,415 million. The acquisition costs of certain properties were reduced by ¥16,471 million representing deferred profit on sales of other properties.

2. Carrying amount of equity investments in unconsolidated subsidiaries and affiliates are as follows (Yen in millions):

Investments in securities (Domestic Stocks)	¥10,865
Investments in securities (Foreign securities)	¥93,036
Investments in securities (Other securities)	¥6,689

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 ¥199 million and ¥2,172 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 (hereafter, this category is referred to as "Loans not accruing interest") 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)..

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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

March 31, 2011	March 31, 2012
of, or support to debtors in financial difficulty.	of, or support to debtors in financial difficulty.
(2) Loans overdue for 3 months or more amounted to ¥995 million.	(2) Loans overdue for 3 months or more amounted to ¥890 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 the loans to financially impaired parties and overdue loans.	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 the loans to financially impaired parties and overdue loans.
(3) Restructured loans amounted to ¥2,032 million.	(3) Restructured loans amounted to ¥1,394 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. The loans to financially impaired parties, overdue loans and loans overdue for 3 months or more are excluded from this category.	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. The 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 ¥5,362 million.	(4) The total of loans to financially impaired parties, overdue loans, loans overdue for 3 months or more and restructured loans amounted to ¥4,656 million.
4. Investments in securities in the amount of ¥109,851 million, Cash, deposits and saving in the amount of ¥1,495 million and Tangible fixed assets in the amount of ¥234 million are pledged as collateral for overseas operations and Real Time Gross Settlement system of current account at the Bank of Japan.	4. Investments in securities in the amount of ¥111,390 million, Cash, deposits and saving in the amount of ¥1,849 million and Tangible fixed assets in the amount of ¥214 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 ¥57,226 million.	5. Investments in securities include those that were loaned under securities lending agreements in the amount of ¥28,825 million.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

March 31, 2011

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

(1) Details of retirement benefit obligations:

Retirement benefit obligations	¥	277,186
Plan assets		(160,481)
Unfunded retirement benefit obligations		116,704
Unrecognized actuarial losses		(36,764)
Reserve for pension and retirement benefits	¥	79,939

(2) Actuarial assumptions for calculation of retirement benefit obligations, 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 unrecognized prior service costs	4 years
Amortization period for unrecognized actuarial gains and losses	Mainly 10 years

March 31, 2012

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

(1) Details of retirement benefit obligations:

Retirement benefit obligations	¥	279,686
Plan assets		(166,902)
Unfunded retirement benefit obligations		112,784
Unrecognized actuarial losses		(28,387)
Net carrying amount in the balance sheet		84,396
Prepaid pension cost		(103)
Reserve for pension and retirement benefits	¥	84,500

(2) Actuarial assumptions for calculation of retirement benefit obligations, 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 unrecognized prior service costs	4 years
Amortization period for unrecognized actuarial gains and losses	Mainly 10 years

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

March 31, 2011	March 31, 2012
7. The Company provides guarantees to the transactions of a limited partnership entity. Aggregate net present value of those transactions was ¥73,106 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.	7. The Company provides guarantees to the transactions of a limited partnership entity. Aggregate net present value of those transactions was ¥182,250 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.
8. The Company executes a net worth maintenance agreement on behalf of Mitsui Sumitomo Metlife Insurance Company, Limited ("MSML") which is an affiliated company of MS & 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 its obligations. The Company and MS & AD Insurance Group Holdings, Inc. are jointly obligated for the agreement. The aggregated amount of liabilities and assets of MSML as of March 31, 2011 were ¥3,015,418 million (including Underwriting funds in the amount of ¥3,003,150 million) and ¥3,069,708 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, 2011.	8. The Company executes a net worth maintenance agreement on behalf of Mitsui Sumitomo Primary Life Insurance Company, Limited ("MSPL") which is a subsidiary of MS & AD Insurance Group Holdings, Inc. Under this agreement, the Company's funding and other obligations are triggered if MSPL 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 Company and MS & AD Insurance Group Holdings, Inc. are jointly obligated for the agreement. The aggregated amount of liabilities and assets of MSPL as of March 31, 2012 were ¥3,094,092 million (including Underwriting funds in the amount of ¥3,075,344 million) and ¥3,154,641 million, respectively. This agreement does not provide any guarantees for payment for its obligations. MSPL was not in a triggering situation mentioned above as of March 31, 2012.
9. Unutilized portion of commitment lines given to third parties amounted to ¥1,788 million.	9. Unutilized portion of commitment lines given to third parties amounted to ¥1,349 million.

March 31, 2011

10. Matters regarding financial instruments are as follows:

(1) Qualitative information on financial instruments

(i) Policy on financial instruments

The Company and its subsidiaries ("Group") make investments in financial instruments, while maintaining liquidity, in order to maximize net asset value sustainably under the appropriate risk management.

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 inflows which mainly arise from insurance operations and 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 Company raises funds through issuance of long-term or short-term corporate bonds or other financing methods as needs arise.

March 31, 2012

10. Matters regarding financial instruments are as follows:

(1) Qualitative information on financial instruments

(i) Policy on financial instruments

The Company and its subsidiaries ("Group") make investments in financial instruments, while maintaining liquidity, in order to maximize net asset value sustainably under the appropriate risk management.

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 inflows which mainly arise from insurance operations and 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 Company raises funds through issuance of long-term or short-term corporate bonds or other financing methods as needs arise.

March 31, 2011

(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.
Risks pertaining to investments include market risks, credit risks and market liquidity risks. Market risks arise from fluctuation in interest rates, stock prices, foreign 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 execute transactions at extremely unfavorable prices under turmoil of market.
The Company utilizes derivative transactions represented by interest rate swaps, forward exchange contracts and currency options for the purpose of hedging interest rate risks and currency risks. In addition to the derivative transactions mentioned above, the Company utilizes credit derivatives and weather derivatives in order to generate investment income with consideration given to associated risks. The consolidated subsidiaries also utilize forward exchange contracts for the purpose of hedging currency risks. For derivative transactions to which hedge accounting is applied, please refer to "Significant Items for Presenting 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 underlyings of the derivative

March 31, 2012

(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.
Risks pertaining to investments include market risks, credit risks and market liquidity risks. Market risks arise from fluctuation in interest rates, stock prices, foreign 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 execute transactions at extremely unfavorable prices under turmoil of market.
The Company utilizes derivative transactions represented by interest rate swaps, currency swaps, forward exchange contracts and currency options for the purpose of hedging interest rate risks and currency risks. In addition to the derivative transactions mentioned above, the Company utilizes credit derivatives and weather derivatives in order to generate investment income with consideration given to associated risks. The consolidated subsidiaries also utilize derivatives such as forward exchange contracts for the purpose of hedging interest rates and currency risks. For derivative transactions to which hedge accounting is applied, please refer to "Significant Items for Presenting 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

March 31, 2011	March 31, 2012
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 used for hedging activities reduce market risks because the fair value of hedged items and hedging instruments fluctuate oppositely. In order to avoid credit risks by nonperformance of counterparties, derivative instruments are entered into with selected counterparties with high credit quality, among which and transactions are diversified.	in underlyings of 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 used for hedging activities reduce market risks because the fair value of hedged items and hedging instruments fluctuate oppositely. In order to avoid credit risks by nonperformance of counterparties, derivative instruments are entered into with selected counterparties with high credit quality, among which and transactions are diversified.

March 31, 2011

(iii) Risk management structure relating to 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 department 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 regularly reports the result to the Board of Directors.

March 31, 2012

(iii) Risk management structure relating to 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 department 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 by monitoring sensitivities of holding assets to the changes in interest rates, foreign exchange rate and stock prices, and quantifying market risk and credit risk using the VaR (Value-at-Risk) method, and regularly reports the result to the Board of Directors.

March 31, 2011	March 31, 2012
a. Market risk management	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 according to the risk characteristics. The risk management department also monitors sensitivities of holding assets to the changes in interest rates, 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.	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 according to the risk characteristics.
b. Credit risk management	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, and 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 value.	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, and 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 value.

March 31, 2011

c. Liquidity risk management

The Group conducts treasury management of cash position with 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, 2011, together with their differences. Note that the following table does not include certain securities instruments for which fair value is deemed to be extremely difficult to determine (see Note 2).

March 31, 2012

c. Liquidity risk management

The Group conducts treasury management of cash position with 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, 2012, together with their differences. Note that the following table does not include certain securities instruments for which fair value is deemed to be extremely difficult to determine (see Note 2).

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheet (Continued)

March 31, 2011

	Consolidated balance sheet amount	Fair Value	Difference
		(Yen in millions)	
(i) Cash, deposits & savings	¥ 306,669	306,669	-
(ii) Call loans	52,000	52,000	-
(iii) Receivables under resale agreements	11,998	11,998	-
(iv) Monetary claims bought	115,190	115,190	-
(v) Money trusts	9,676	9,676	-
(vi) Investments in securities			
Available for sale securities	3,898,682	3,898,682	-
(vii) Loans	687,286	-	-
Bad debt reserve (*1)	(2,182)	-	-
	685,104	696,198	11,094
Total assets	¥ 5,079,322	5,090,416	11,094
Bond issued	¥ 164,963	167,301	2,337
Total liabilities	¥ 164,963	167,301	2,337
Derivative transaction (*2)			
Hedge accounting not applied	¥ (3,719)	(3,719)	-
Hedge accounting applied	9,948	9,948	-
Total derivative transaction	¥ 6,229	¥ 6,229	-

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

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

March 31, 2012

	Consolidated balance sheet amount	Fair Value	Difference
		(Yen in millions)	
(i) Cash, deposits & savings	¥ 448,826	448,826	-
(ii) Call loans	22,000	22,000	-
(iii) Receivables under resale agreements	41,680	41,680	-
(iv) Monetary claims bought	85,482	85,482	-
(v) Money trusts	9,817	9,817	-
(vi) Investments in securities			
Available for sale securities	3,544 ,790	3,544,790	-
(vii) Loans	624,376	-	-
Bad debt reserve (*1)	(2,176)	-	-
	622,199	634,891	12,691
Total assets	¥ 4,774,798	4,787,490	12,691
Bond issued	¥ 271,165	274,480	3,314
Total liabilities	¥ 271,165	274,480	3,314
Derivative transaction (*2)			
H dge accounting not applied	¥ (4,114)	(4,114)	-
Hedge accounting applied	24,222	24,222	-
Total derivative transaction	¥ 20,107	¥ 20,107	-

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

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

March 31, 2011

(Note 1) Determination of fair value of financial instruments

Assets

(i) Cash, deposits & savings

With regard to deposits & savings, fair value is measured as the present value of future estimated cash flows for each category of deposits & savings based on duration, discounted at interest rates applicable to same type of new deposits & savings. With regard to deposits & savings without maturity and short-term deposits & savings, the book value is deemed as the fair value since the book value approximates the fair value.

(ii) Call loans

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 agreements

With regard to Receivables under resale agreements, 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.

March 31, 2012

(Note 1) Determination of fair value of financial instruments

Assets

(i) Cash, deposits & savings

With regard to deposits & savings, fair value is measured as the present value of future estimated cash flows for each category of deposits & savings based on duration, discounted at interest rates applicable to same type of new deposits & savings. With regard to deposits & savings without maturity and short-term deposits & savings, the book value is deemed as the fair value since the book value approximates the fair value.

(ii) Call loans

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 agreements

With regard to Receivables under resale agreements, 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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

March 31, 2011	March 31, 2012
(v) Money trusts	(v) Money trusts
With regard to Money trusts, the price quoted by the trustee is deemed as the fair value.	With regard to Money trusts, the price quoted by the trustee is deemed as the fair value.
(vi) Investments in securities	(vi) Investments in 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.	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	(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 arise, 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 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 rates 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.	With regard to floating rate loans, the book value is deemed as the fair value so long as no significant changes in credit risk arise, 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 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 rates 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.

March 31, 2011

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.

March 31, 2012

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.

March 31, 2011

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, 2011 and not included in the above table, because their fair value is deemed to be extremely difficult to determine, are summarized as follows:

Unlisted stocks of unconsolidated subsidiaries and affiliates (Carrying amount on the consolidated balance sheet: ¥50,606 million), other unlisted stocks (Carrying amount on the consolidated balance sheet: ¥96,408 million), partnership investment comprised of unlisted stocks (Carrying amount on the consolidated balance sheet: ¥42,498 million) 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) are not included in the scope of fair value disclosure.

March 31, 2012

Liabilities

Bonds issued

With regard to bonds issued, "Reference prices for Over-the-Counter bond transactions" published by Japan Securities Dealers Association or the price indicated by the financial institutions 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, 2012 and not included in the above table, because their fair value is deemed to be extremely difficult to determine, are summarized as follows:

Unlisted stocks of unconsolidated subsidiaries and affiliates (Carrying amount on the consolidated balance sheet: ¥110,590 million), other unlisted stocks (Carrying amount on the consolidated balance sheet: ¥64,544 million), partnership investment comprised of unlisted stocks (Carrying amount on the consolidated balance sheet: ¥49,295 million) are not included in the scope of fair value disclosure.

March 31, 2011

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

(1) Qualitative information on investment and leasing properties:

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

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

Carrying amount as of March 31, 2011	Fair value as of March 31, 2011
¥39,760	103,016

(Note)

1. Carrying amount represents the cost of acquisition less accumulated depreciation.

2. Fair value as of March 31, 2011 is primarily based on appraisals by qualified external valuers. With respect to the investment and leasing properties with no substantial changes in their appraisal values or indices in which market prices are reflected appropriately since the most recent appraisals, fair value is determined based on these appraisal values or the values adjusted by these indices.

March 31, 2012

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

(1) Qualitative information on investment and leasing properties:

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

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

Carrying amount as of March 31, 2012	Fair value as of March 31, 2012
¥39,547	95,978

(Note)

1. Carrying amount represents the cost of acquisition less accumulated depreciation.

2. Fair value as of March 31, 2012 is primarily based on appraisals by qualified external valuers. With respect to the investment and leasing properties with no substantial changes in their appraisal values or indices in which market prices are reflected appropriately since the most recent appraisals, fair value is determined based on these appraisal values or the values adjusted by these indices.

March 31, 2012

12. Effects on deferred tax assets and liabilities by changes in the corporate income tax rate are as follows:

    Following the promulgation on December 2, 2011 of the "Act for partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economics and Social Structures" (Act No.114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011), corporation tax rates will be reduced gradually and surtaxes for reconstruction funding after the Great East Japan Earthquake will be imposed for fiscal years beginning on or after April 1, 2012. As a result of these changes, the effective statutory tax rates which are used to measure deferred tax assets and liabilities, will be changed mainly from 36.1% to 33.2% for temporary differences that are expected to be reversed during the fiscal years beginning within the period from April 1, 2012 to March 31, 2015 and will be changed mainly to 30.7% for the temporary differences that are expected to be reversed in the fiscal years beginning on or after April 1, 2015. Due to the changes in the corporation tax rates, net Deferred tax assets and Underwriting reserves decreased by ¥5,179 million and ¥7,277 million, respectively, Net unrealized gains on investments in securities, Net deferred gains on hedge accounting for derivatives and Income taxes-deferred increased by ¥34,037 million, ¥1,105 million and ¥40,321 million, respectively, and Net loss increased by ¥33,069 million.

March 31, 2011

13. Net assets per share as of March 31, 2011 was ¥726.31. Minority interests in the amount of ¥14,679 million were deducted from net assets in its computation. Outstanding common shares as of March 31, 2011 were 1,404,402 thousand shares.

March 31, 2012

13. Net assets per share as of March 31, 2012 was ¥646.89. Minority interests in the amount of ¥14,310 million were deducted from net assets in its computation. Outstanding common shares as of March 31, 2012 were 1,404,402 thousand shares.

March 31, 2012

14. Significant subsequent event that occurred after the balance sheet date and would have a material effect on the financial position or the results of operations of the Company and its consolidated subsidiaries for the future periods is as follows:

    Strategic alliance with major life insurer in India
    On April 12, 2012 the Company reached an agreement to invest and form a strategic alliance with Max New York Life Insurance Company Limited ("Max New York Life"), a major Indian life insurer under one of the largest Indian business groups, Max India. The details are as follows:

    (1) Purpose of the alliance

    The Company intends to expand the business base in the Asian market, which is rapidly

March 31, 2012

growing, through the entry into the life insurance market in India.

(2) Overview of the alliance

The Company will acquire 26% of the outstanding shares of Max New York Life (unlisted) held by US-based New York Life, provided that approval is obtained from the Indian insurance supervisory authorities. The amount to be invested is 27.3 billion rupees (approximately ¥45.0 billion). This ownership is the maximum level allowed for foreign investment in Indian life insurance companies.
(Exchange rate: INR1=¥1.66).

Upon making the investment, the Company will also dispatch officers and employees to Max New York Life, (two of whom are scheduled to be appointed as directors) to actively participate in the management. The Company will also provide a variety of expertise in the life insurance business, accumulated inside and outside Japan, in an effort to meet the life insurance and annuity insurance needs of multinational corporations entering India, along with the sale of life insurance products to the wealthy, who make up Max New York Life's existing clientele

(3) Date of the alliance

The Company plans to launch the alliance in this summer, provided that approval is obtained from the Indian insurance supervisory authorities.

March 31, 2011	March 31, 2012
15. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.	15. 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 Income

For the fiscal years ended March 31, 2011 and 2012

March 31, 2011

1. Business expenses mainly consist of (Yen in millions):

Commission expenses	¥243,759
Salary	¥129,542

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 Consolidated Statement of Income.

2. Other extraordinary income includes gains on changes in equity of a subsidiary resulting from the acquisition of the business by share exchange at the subsidiary.

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	6 properties, including a building for rent in Aichi	Land	¥ 234
			Buildings	2,773
			Total	¥ 3,007
Idle real estate and real estate for sale	Land and buildings	6 properties, including office buildings in Hiroshima	Land	¥ 223
			Buildings	107
			Total	¥ 330

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 are grouped on an individual basis. Carrying amounts of the above mentioned assets were reduced to their realizable values in view of falling property values or being unused, and the resulting decreases in the carrying amounts were recorded as Impairment losses on fixed assets in the aggregate amount of ¥3,338 million in Extraordinary losses.

March 31, 2012

1. Business expenses mainly consist of (Yen in millions):

Commission expenses	¥251,077
Salary	¥126,829

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 Consolidated 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	Buildings	Building for rent in Aomori	Building	¥ 384
Idle real estate and real estate for sale	Land and buildings	8 properties, including office buildings in Tokyo	Land	¥ 36
			Buildings	2,719
			Total	¥ 2,756

Properties used for insurance operations are grouped as a single asset group by each consolidated company. Rental properties, idle real estate and real estate for sale are grouped on an individual basis. Carrying amounts of the above mentioned assets were reduced to their realizable values in view of falling property values or being scheduled for sale, and the resulting decreases in the carrying amounts were recorded as Impairment losses on fixed assets in the aggregate amount of ¥3,141 million in Extraordinary losses.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Consolidated Statements of Income (Continued)

March 31, 2011	March 31, 2012
The realizable values of the assets concerned are determined at net sale values. The net sale values are computed based on the appraisal values by independent appraisers.	The realizable values of the assets concerned are determined at net sale values. The net sale values are computed based on the estimated sales amounts or the appraisal values by independent appraisers.
4. Other extraordinary losses include business integration costs (¥4,025 million), losses on cumulative adjustment for the adoption of "Accounting Standard for Asset Retirement Obligations" (¥2,257 million), and contributions relating to the building construction (¥2,136 million).	3. Other extraordinary losses include reversal of foreign currency translation adjustments (¥7,229 million).
5. Consolidated net income per share for the fiscal year ended March 31, 2011 was ¥18.06.	4. Consolidated net loss per share for the fiscal year ended March 31, 2012 was ¥82.05.
Consolidated net income per share is computed based on the following figures: Consolidated net income and Consolidated net income available to common stockholders, ¥25,373 million; and Average outstanding common shares during the fiscal year, 1,404,402 thousand shares. Earnings per share after adjustment for dilutive effect of shares is not presented as no dilutive securities exist.	Consolidated net loss per share is computed based on the following figures: Consolidated net income and Consolidated net loss available to common stockholders, ¥115,237 million; and Average outstanding common shares during the fiscal year, 1,404,402 thousand shares. Earnings per share after adjustment for dilutive effect of shares is not presented as no dilutive securities exist and the Company recognized net loss for the fiscal year ended March 31, 2012.
6. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.	5. 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 Comprehensive Income

For the fiscal year ended March 31, 2012

※1 Reclassification adjustments and income tax effects of other comprehensive income

(Yen in millions)

Net unrealized gains/losses on investments in securities:	
Gains/losses arising during the period	4,348
Reclassification adjustments	(18,409)
Net changes before income tax effects	(14,060)
Income tax effects	39,161
Net unrealized gains/losses on investments in securities:	25,100
Net deferred gains/losses on hedge accounting for derivatives:	
Gains/losses arising during the period	14,442
Reclassification adjustments	(288)
Net changes before income tax effects	14,154
Income tax effects	(4,004)
Net deferred gains/losses on hedge accounting for derivatives	10,150
Foreign currency translation adjustments:	
Gains/losses arising during the period	(18,656)
Reclassification adjustments	6,678
Net changes before income tax effects	(11,977)
Income tax effects	-
Foreign currency translation adjustments	(11,977)
Share of other comprehensive income of equity investees accounted for by equity method:	
Gains/losses arising during the period	(3,678)
Reclassification adjustments	(88)
Share of other comprehensive income of equity investees accounted for by equity method	(3,766)
Total other comprehensive income	19,506

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Consolidated Statements of Changes in Net Assets

For the fiscal years ended March 31, 2011 and 2012

March 31, 2011

1. Type and number of shares issued and treasury stock

(Shares in thousands)

	Beginning balance	Increase	Decrease	Ending Balance
Issued:				
Common shares	1,404,402	-	-	1,404,402
Total	1,404,402	-	-	1,404,402

(Note) There is no treasury stock requiring disclosure.

March 31, 2012

1. Type and number of shares issued and treasury stock

(Shares in thousands)

	Beginning balance	Increase	Decrease	Ending Balance
Issued:				
Common shares	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 Statements of Changes in Net Assets (Continued)

March 31, 2011

2. Dividends

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

Resolution	Type of shares	Aggregate amount of dividends	Dividends per share	Date of record	Effective date
Meeting of board of directors held on May 20, 2010	Common shares	¥ 14,000	¥ 9.96	March 31, 2010	June 1, 2010
Meeting of board of directors held on June 29, 2010	Common shares	¥ 1,550	¥ 1.10	-	July 2, 2010
Meeting of board of directors held on August 12, 2010	Common shares	¥ 8,300	¥ 5.90	-	August 13, 2010
Meeting of board of directors held on November 19, 2010	Common shares	¥ 4,640	¥ 3.30	-	December 1, 2010

Resolution	Type of shares	Type of assets for dividends and their book value		Dividends per share	Date of record	Effective date
Meeting of board of directors held on September 30, 2010	Common shares	Common shares of Inter Risk Research Institute and Consulting, Inc., MS&AD Staffing Service Company, Limited, MS&AD Research Institute Company, Limited and MS&AD Business Support Company, Limited	¥ 154	¥ 0.11	-	October 1, 2010
Meeting of board of directors held on February 28, 2011	Common shares	Treasury Discount Bills	¥ 25,398	¥ 18.08	-	March 16, 2011

March 31, 2012

2. Dividends

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

Resolution	Type of shares	Type of assets for dividends and their book value		Dividends per share	Date of record	Effective date
Meeting of board of directors held on March 30, 2011	Common shares	Common shares of MS&AD Business Service Company, Limited	¥ 30	¥ 0.02	-	April 1, 2011
Meeting of board of directors held on May 19, 2011	Common shares	Treasury Discount Bills	¥ 11,198	¥ 7.97	March 31, 2011	June 10, 2011
Meeting of board of directors held on September 30, 2011	Common shares	Common shares of MS&AD Systems Company, Limited.	¥ 100	¥ 0.07	-	October 1, 2011
Meeting of board of directors held on November 18, 2011	Common shares	Treasury Discount Bills	¥ 5,489	¥ 3.90	-	November 18, 2011

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Consolidated Statements of Changes in Net Assets (Continued)

March 31, 2011

(2) Dividends to be made effective after March 31,2011 for which the date of record is in the fiscal year ended March 31, 2011 (Yen in millions, except for dividends per share in Yen)

Resolution	Type of shares	Type of assets for dividends and their book value		Source of dividends	Dividends per share	Date of record	Effective date
Meeting of board of directors held on May 19, 2011	Common share	Treasury Discount Bills	¥ 11,198	Retained earnings	¥ 7.97	March 31, 2011	June 10, 2011

3. "Total valuation and transaction adjustments" in the previous fiscal year is now presented as "Total accumulated other comprehensive income".

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

March 31, 2012

(2) Dividends to be made effective after March 31,2012 for which the date of record is in the fiscal year ended March 31, 2012 (Yen in millions, except for dividends per share in Yen)

Resolution	Type of shares	Type of assets for dividends and their book value		Source of dividends	Dividends per share	Date of record	Effective date
Meeting of board of directors held on May 18, 2012	Common share	Treasury Discount Bills	¥ 11,199	Retained earnings	¥ 7.97	March 31, 2012	June 8, 2012

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 fiscal years ended March 31, 2011 and 2012

March 31, 2011

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

		(Yen in millions)
Cash, deposits and savings	¥	306,669
Call loans		52,000
Receivables under resale agreements		11,998
Monetary claims bought		115,190
Money trusts		9,676
Investments in securities		4,089,812
Time deposit with an original maturity of more than three months		(73,694)
Monetary claims bought other than cash equivalents		(70,278)
Money trust other than cash equivalents		(8,976)
Investments in securities other than cash equivalents		(4,060,350)
Cash and cash equivalents	¥	372,047

March 31, 2012

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

		(Yen in millions)
Cash, deposits and savings	¥	448,826
Call loans		22,000
Receivables under resale agreements		41,680
Monetary claims bought		85,482
Money trusts		9,817
Investments in securities		3,769,220
Time deposit with an original maturity of more than three months		(92,923)
Monetary claims bought other than cash equivalents		(65,094)
Money trust other than cash equivalents		(9,117)
Investments in securities other than cash equivalents		(3,751,623)
Cash and cash equivalents	¥	458,269

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Consolidated Statements of Cash Flows (Continued)

March 31, 2011	March 31, 2012

2. Details of increases in Assets and Liabilities derived from comprehensive transfer of insurance contracts

The details of increase in Assets and Liabilities derived from the comprehensive transfer of insurance contracts from Sumi-Sei General Insurance Company Limited to the Company are as follows:

	(Yen in millions)
Total assets	¥ 1,402
Total liabilities	30,759
(Underwriting funds	30,669)

The settlement amount of ¥27,479 million determined based on the difference (¥29,356 million) between the assets and liabilities after deducting the amount (¥1,876 million) corresponding to agency commissions relating to the transferred contracts is presented as "Increase in cash and cash equivalents relating to comprehensive transfer of insurance contracts".

3. Significant non-cash transactions

The details of increases in Assets and Liabilities due to the acquisition of the non-life insurance business of Hong Leong Assurance Berhad in exchange for the transfer of common shares of MSIG (Malaysia) Berhad, the Company's consolidated subsidiary, are as follows:

	(Yen in millions)
Total assets	¥ 8,906
(Cash, deposits and savings	4,464)
(Investments in securities	3,075)
Goodwill	16,808
Total liabilities	8,906
(Underwriting funds	7,565)

Total assets above include cash and cash equivalents and they are recorded in "Proceeds from acquisition of business ".

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Consolidated Statements of Cash Flows (Continued)

March 31, 2011	March 31, 2012
4. Cash flows from investing activities include cash flows from investments made as part of the insurance business.	2. Cash flows from investing activities include cash flows from investments made as part of the insurance business.