



10062105903

mitsui sumitomo insurance company limited - new zealand branch

financial statements

for the year ended 31 march 2013

mitsui sumitomo insurance company limited - new zealand branch
CONTENTS
FOR THE YEAR ENDED 31 MARCH 2013

CONTENTS	1
STATEMENT OF COMPREHENSIVE INCOME	2
STATEMENT OF MOVEMENT IN HEAD OFFICE ACCOUNT	3
STATEMENT OF FINANCIAL POSITION	4
STATEMENT OF CASH FLOWS	5
STATEMENT OF ACCOUNTING POLICIES	6-9
NOTES TO FINANCIAL STATEMENTS	10-24
AUDITOR'S REPORT	25-26

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 2013.

Mitsui Sumitomo Insurance Company Limited - New Zealand Branch
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2013

	Notes	2013 \$	2012 Restated* \$
Gross earned premium	2, 3a	10,474,705	9,048,704
Reinsurance expense	4	<u>(3,178,032)</u>	<u>(2,142,336)</u>
Net Premium Revenue		7,296,673	6,906,368
Claims Expense	6	(19,996,662)	(25,947,226)
Reinsurance and Other Recoveries	2, 6	12,668,712	(3,742,597)
Net Claims Expense		(7,327,950)	(29,689,823)
Commissions		(348,374)	(362,467)
Reinsurance commission income	2	<u>416,567</u>	<u>340,894</u>
Net Acquisition Costs		68,193	(21,573)
Underwriting Result		36,916	(22,805,028)
Operating Expenses	5	(1,431,414)	(1,272,714)
Investment income	2, 3b	2,834,157	2,933,989
Sundry income	2	<u>10,883</u>	<u>1,777</u>
Net Profit Before Tax		1,450,542	(21,141,976)
Taxation expense	7	-	-
Net Profit/(Loss) for the Period		1,450,542	(21,141,976)
Other comprehensive income for the period		-	-
Total Comprehensive Income/(Loss) for the Period		1,450,542	(21,141,976)

*See Note 1.

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



Mitsui Sumitomo Insurance Company Limited - New Zealand Branch
Statement of Movement in Head Office Account
For the year ended 31 March 2013

	2013	2012
	\$	Restated* \$
Opening Head Office Balance	<u>1,550,999</u>	<u>(39,107,015)</u>
Net Profit/(Loss) for the Period	1,450,542	(21,141,976)
Total Comprehensive Income/(Loss) for the Period	<u>1,450,542</u>	<u>(21,141,976)</u>
Funding from Head Office	-	61,799,990
Closing Head Office Balance	<u>3,001,541</u>	<u>1,550,999</u>

*See Note 1.

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
STATEMENT OF FINANCIAL POSITION
As at 31 March 2013

	Notes	31 March 2013 \$	31 March 2012 Restated* \$	1 April 2011 Restated* \$
Assets				
Cash and Cash Equivalents		87,097,252	104,413,611	48,269,066
Investment in Government Stock	8	535,279	542,823	510,627
Premium Receivables		2,493,486	1,851,160	1,810,423
Taxation Receivable		197	56,542	668,067
Other Current Assets	9	1,091,332	1,496,127	756,854
Reinsurance Receivable		200,047	159,081	397,764
Reinsurance Recoveries	10	42,597,925	30,423,296	35,080,434
Property, Plant and Equipment	11	47,643	31	8,602
Total Assets		134,063,161	138,942,671	87,501,837
Liabilities				
Accounts Payable	12	620,615	444,232	363,428
Reinsurance Payable		713,510	346,182	138,937
Other Current Liabilities	13	173,953	183,950	160,321
Unearned Premium Reserve	14	3,763,268	2,724,631	2,351,452
Outstanding Claims Liability	15	124,690,047	132,858,328	123,112,000
Due to Related Parties	19	1,100,227	834,349	482,714
Net Deferred Tax Liability	16	-	-	-
Total Liabilities		131,061,620	137,391,672	126,608,852
Net Assets		3,001,541	1,550,999	(39,107,015)
Head Office Account		3,001,541	1,550,999	(39,107,015)

*See Note 1.

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

For and on behalf of the Board of Directors


Director

8 AUG 2013

Date


Director

8 AUG 2013

Date



Mitsui Sumitomo Insurance Company Limited - New Zealand Branch
Statement of Cash Flows
For the year ended 31 March 2013

	Notes	2013 \$	2012 \$
Cash flows from operating activities			
Premiums received		10,871,016	9,381,146
Reinsurance and other recoveries received		453,117	1,153,224
Interest received		2,898,982	2,825,947
Claims paid		(28,164,943)	(16,200,898)
Reinsurance premiums paid		(2,924,328)	(2,152,223)
Net acquisition costs received/(paid)		22,190	(5,228)
Income tax received		56,345	611,525
Operating expenses paid		(484,069)	(1,220,605)
Net cash used in operating activities	21	(17,271,690)	(5,607,112)
Cash flows from investing activities			
Payments for investment securities		-	(548,333)
Proceeds from sale of investment securities		-	500,000
Payments for purchases of plant & equipment		(49,886)	-
Proceeds from sale of plant and equipment		5,217	-
Net cash used in investing activities		(44,669)	(48,333)
Cash flows from financing activities			
Funding from Head Office		-	61,799,990
Net cash from financing activities		-	61,799,990
Net (decrease)/increase in cash and cash equivalents		(17,316,359)	56,144,545
Cash and cash equivalents at the beginning of the financial year		104,413,611	48,269,066
Cash and cash equivalents at the end of the financial year		87,097,252	104,413,611

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.



Reporting Entity

The financial statements are for Mitsui Sumitomo Insurance Company Limited - New Zealand Branch ("the 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 Branch operates as a fire and general insurer and reinsurer within New Zealand.

With the implementation of the Insurance (Prudential Supervision) Act 2010 all general insurance entities carrying on insurance business in New Zealand are required to be licensed by the Reserve Bank of New Zealand. The Branch was granted a full licence during the current year. Per the terms and conditions attaching to the license, with effect from 1 April 2012 the Branch is classified as an issuer under the Financial Reporting Act 1993 and is no longer be able to take advantage of the differential reporting exemptions available under External Reporting Board Standard A1, Accounting Standards Framework (For-profit Entities Update) which were applied in previous financial years.

The principal changes included in these financial statements are the inclusions of a cash flow statement and additional notes to the primary financial statements.

Basis of Preparation

Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (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. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. They also comply with International Financial Reporting Standards (IFRS).

The financial statements of the Branch are for the year ended 31 March 2013. The financial statements were authorised for issue by the Directors on the 8 of Aug 2013.

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 25. These relate to the outstanding claims liability and reinsurance recoveries in Notes 15 and 10 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.

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

The Branch has not applied the differential reporting exemptions available under the External Reporting Board Standard A1, Accounting Standards Framework (For-profit Entities Update) which were utilised in the prior financial year. As a result certain comparatives have been reclassified to comply with current year presentation or are presented for the first time.



Significant Accounting Policies

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 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 cash flows. This is compared to the unearned premium reserve net of deferred acquisition costs. Any deficiency is recognised in profit or loss after first writing down any deferred acquisition costs. Any shortfall after having written down acquisition costs is then recognised in profit or loss with the corresponding amount recognised in the Statement of Financial Position 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 2013 (2012: Nil).



Significant Accounting Policies (continued)

Reinsurance Receivables and 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 profit or loss.

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 profit or loss 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 profit or loss. 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 Statement of Comprehensive Income has been prepared so that all components are stated exclusive of GST. All items in the Statement of Financial Position 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 date are translated to NZD at the foreign exchange rate ruling at that date. Foreign exchange differences arising on their translation are recognised in profit or loss.

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 Statement of Financial Position 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 profit or loss using the effective interest rate method.

The Branch also holds cash and cash equivalents which back general insurance liabilities.



Significant Accounting Policies (continued)

Property, Plant and Equipment

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

Motor vehicles	21%
Office equipment	36-40%

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

Premium Receivables

Premium receivables are recognised in the Statement of Financial Position 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 or if events or circumstances indicate that the amount may not be recoverable.

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 profit or loss. 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 funding provided by the Head office together with accumulated retained earnings, repayable at the discretion of the Branch which is the amount retained for the purpose of financial soundness. As a Branch there are no externally imposed capital restrictions to which the Branch must adhere. Refer to Note 22 Solvency.

New accounting standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2013, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Branch, except for NZ IFRS 9 Financial Instruments, which becomes mandatory for the Branch's March 2016 financial statements and could change the classification and measurement of financial assets. The Branch does not plan to adopt this standard early and the extent of the impact has not been determined.



1 Restatement

During the preparation of the financial statements for the financial year ended 31 March 2013, the Branch became aware of a material error that arose due to the misinterpretation of a clause in a reinsurance agreement. A subsequent confirmation was obtained from the reinsurance broker confirming the correct interpretation of the relevant clause in the reinsurance agreement. As a result of this misinterpretation the reinsurance recoveries and reinsurance assets in relation to the February 2011 earthquake event were overstated in the financial statements for 2011 and 2012.

Subsequent reconsideration of the accounting treatment adopted in the prior period financial statements for the above reinsurance contract has resulted in the restatement of the prior year financial statements. The table below details the errors and the restated figures for the statement of financial position as at 31 March 2012 and 1 April 2011, and the statement of financial performance for the year ended 31 March 2012.

	Reinsurance Recoveries	Comprehensive Income	Head Office Account
Balance reported at 1 April 2011	68,772,000	(51,457,456)	(5,415,449)
Effect of change in reinsurance recoveries	(33,691,566)	(33,691,566)	(33,691,566)
Restated balance at 1 April 2011	35,080,434	(85,149,022)	(39,107,015)
Balance reported at 31 March 2012	85,688,747	431,909	56,816,450
Effect of change in reinsurance recoveries on 1 April 2011	(33,691,566)	-	(33,691,566)
Effect of change in reinsurance recoveries on 31 March 2012	(21,573,885)	(21,573,885)	(21,573,885)
Restated balance at 31 March 2012	30,423,296	(21,141,976)	1,550,999

	2013	2012 Restated*
2 Total Revenue	\$	\$
This comprises:		
Gross written premium	11,513,343	9,421,883
Change in unearned premium provision	(1,038,638)	(373,179)
Gross Earned Premium	10,474,705	9,048,704
Reinsurance commission income	416,567	340,894
Reinsurance and other recoveries	12,668,712	(3,742,597)
Reinsurance Income	13,085,279	(3,401,703)
Investment income	2,834,157	2,933,989
Profit on disposal of property, plant and equipment	5,217	-
Other income	5,666	1,777
Sundry income	10,883	1,777
Total Revenue	26,405,024	8,582,767

* See Note 1.

	2013	2012
3(a) Premium Revenue	\$	\$
Direct	10,418,065	9,006,028
Reinsurance	56,640	42,676
Total Gross Earned Premium	10,474,705	9,048,704
3(b) Investment Income		
Financial assets at fair value through profit or loss (designated upon initial recognition)		
Interest income	29,962	30,164
Change in fair value	(7,544)	(16,137)
Cash and cash equivalents interest income	2,811,739	2,919,962
Total Investment Income	2,834,157	2,933,989



4 Reinsurance Expense	2013	2012
	\$	\$
Outward reinsurance premium expense	(3,254,576)	(2,372,998)
Change in unearned reinsurance premium provision	76,544	230,662
	(3,178,032)	(2,142,336)

5 Operating Expenses	2013	2012
	\$	\$
Management fee	893,182	761,990
Fees paid to auditors:		
audit	100,501	65,000
audit related	-	4,200
tax	6,845	9,682
Depreciation	2,274	8,571
Employee benefits	140,049	137,025
Other expenses	288,563	286,246
Total operating expenses	1,431,414	1,272,714

Audit related fees in the prior year were for work performed on regulatory returns.

6 Claims Expense	2013	2012
	\$	\$
Direct	19,996,168	25,942,695
Reinsurance	494	4,531
	19,996,662	25,947,226

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.

2013	Current Year	Prior Years	Total
	\$	\$	\$
Gross claims incurred - undiscounted	3,069,302	16,948,518	20,017,820
Discount movement	(39,938)	18,780	(21,158)
Gross claims incurred - discounted	3,029,364	16,967,298	19,996,662
Reinsurance and other recoveries - undiscounted	(1,190,981)	(11,486,393)	(12,677,374)
Discount movement	16,052	(7,390)	8,662
Reinsurance and other recoveries - discounted	(1,174,929)	(11,493,783)	(12,668,712)
Net claims incurred	1,854,435	5,473,515	7,327,950

2012 Restated*	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 - discounted	10,044,668	15,902,558	25,947,226
Reinsurance and other recoveries - undiscounted	(1,395,376)	5,125,436	3,730,060
Discount movement	17,444	(4,907)	12,537
Reinsurance and other recoveries - discounted	(1,377,932)	5,120,529	3,742,597
Net claims incurred	8,666,736	21,023,087	29,689,823

* See Note 1.

The prior year's reassessment shown above relates predominantly to earthquake claims occurring in previous financial years, in particular the February 2011 earthquake event. The reassessment was largely as a result of further engineering assessments, the ongoing mediation between the Branch and claimants and exchange rate movements impacting the level of reinsurance recoverables.

Details of the uncertainties that exist in measuring gross incurred claims and reinsurance recoveries arising from the Canterbury earthquakes are explained in Note 15.



	2013	2012
	\$	Restated*
	\$	\$
7 Taxation Expense		
Current tax expense		
Current period	(110)	13,988
Adjustment for prior periods	110	(13,988)
Deferred tax expense		
Origination and reversal of timing differences	-	-
Total Income Tax Expense	<u>-</u>	<u>-</u>
Reconciliation of effective tax rate		
Profit/(loss) before tax	1,450,542	(21,141,976)
Income tax at Branch tax rate 28% (2012: 28%)	406,152	(5,919,753)
Non deductible expenses	157	349
Tax adjustment on unrecognised losses	(406,419)	5,920,302
Prior period under provision	110	37
Effect of change of tax rate to 28%	-	(935)
Total Income Tax Expense	<u>-</u>	<u>-</u>
* See Note 1.		
8 Investment in Government Stock	2013	2012
	\$	\$
Fixed income securities - New Zealand Government Stock	<u>535,279</u>	<u>542,823</u>
9 Other Current Assets	2013	2012
	\$	\$
Accrued income	97,190	154,471
Deferred acquisition costs	281,476	208,390
Deferred reinsurance premium	629,195	552,651
Prepaid expenses	83,471	97,213
GST receivable	-	483,402
	<u>1,091,332</u>	<u>1,496,127</u>
	2013	2012
	\$	\$
Deferred acquisition costs at 1 April	208,390	214,636
Acquisition costs deferred	421,461	356,221
Amortisation charged to the profit or loss	(348,374)	(362,467)
Deferred acquisition costs at 31 March	<u>281,477</u>	<u>208,390</u>
	2013	2012
	\$	\$
Deferred reinsurance premium at 1 April	552,651	321,989
Reinsurance premium deferred	3,254,576	2,372,998
Reinsurance premium charged to the profit or loss	(3,178,032)	(2,142,336)
Deferred reinsurance premium at 31 March	<u>629,195</u>	<u>552,651</u>



10 Reinsurance Recoveries

	2013	2012
	\$	Restated*
	\$	\$
Reinsurance recoveries arising from claims	<u>42,597,925</u>	<u>30,423,296</u>
	2013	2012
	\$	\$
Reinsurance and other recoveries receivable at 1 April	30,423,296	35,080,434
Recoveries on claims reassessed	11,493,783	(5,120,529)
Recoveries received	(494,083)	(914,541)
Recoveries on new claims	<u>1,174,929</u>	<u>1,377,932</u>
Reinsurance and other recoveries receivable at 31 March	<u>42,597,925</u>	<u>30,423,296</u>

* See Note 1.

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 15.

11 Property, Plant and Equipment

Cost	Motor vehicles	Office equipment	Total
	\$	\$	\$
Balance at 1 April 2011	32,589	35,453	68,042
Additions	-	-	-
Balance at 31 March 2012	<u>32,589</u>	<u>35,453</u>	<u>68,042</u>
Balance at 1 April 2012	32,589	35,453	68,042
Additions	41,189	8,697	49,886
Disposals	(32,589)	(4,992)	(37,581)
Balance at 31 March 2013	<u>41,189</u>	<u>39,158</u>	<u>80,347</u>
	Motor vehicles	Office equipment	Total
	\$	\$	\$
Balance at 1 April 2011	32,589	26,851	59,440
Charge for the year	-	8,571	8,571
Balance at 31 March 2012	<u>32,589</u>	<u>35,422</u>	<u>68,011</u>
Balance at 1 April 2012	32,589	35,422	68,011
Charge for the year	1,373	901	2,274
Accumulated depreciation on assets sold	(32,589)	(4,992)	(37,581)
Balance at 31 March 2013	<u>1,373</u>	<u>31,331</u>	<u>32,704</u>
Carrying amounts			
At 1 April 2011	-	8,602	8,602
At 31 March 2012	-	<u>31</u>	<u>31</u>
At 1 April 2012	-	31	31
At 31 March 2013	<u>39,816</u>	<u>7,827</u>	<u>47,643</u>



12 Accounts Payable	2013	2012
	\$	\$
Trade creditors and accruals	490,308	433,464
Government levies	47,115	10,768
GST payable	83,192	-
	<u>620,615</u>	<u>444,232</u>

13 Other Current Liabilities	2013	2012
	\$	\$
Unearned reinsurance commission	94,755	67,672
Non-resident withholding tax	79,198	116,278
	<u>173,953</u>	<u>183,950</u>

	2013	2012
	\$	\$
Unearned reinsurance commission at 1 April	67,672	57,573
Reinsurance commission deferred	443,650	350,993
Reinsurance commission recognised in profit or loss	(416,567)	(340,894)
Unearned reinsurance commission at 31 March	<u>94,755</u>	<u>67,672</u>

14 Unearned Premium Reserve	2013	2012
	\$	\$
Unearned premium liability	<u>3,763,268</u>	<u>2,724,631</u>

	2013	2012
	\$	\$
Unearned premium liability at 1 April	2,724,631	2,351,452
Deferral of premium on contracts written at year end	3,763,268	2,724,631
Prior year premium earned	(2,724,631)	(2,351,452)
Unearned premium liability at 31 March	<u>3,763,268</u>	<u>2,724,631</u>

Liability adequacy test

A liability adequacy test ("LAT") was performed as at 31 March 2013 and 31 March 2012. Both tests identified a surplus the calculations for which are disclosed below:

	2013	2012
	\$	\$
Gross unearned premium	3,763,268	2,724,631
Deferred reinsurance premium	(629,195)	(552,651)
Deferred acquisition expenses	(281,477)	(208,390)
Premium available to meet expected claims cost	<u>2,852,597</u>	<u>1,963,590</u>
Net premium liability (including 75% probability of adequacy risk margin)	2,195,265	1,008,610
LAT result	Pass	Pass

The risk margin included in the Branch's expected future cash flows for future claims was 14% (2012: 15%). 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.



	2013	2012
	\$	\$
15 Outstanding Claims Liability		
15(a) Gross outstanding claims liability		
Central estimate of outstanding claims liabilities	114,115,825	129,672,901
Discount to present value	(60,812)	(44,245)
Risk margin	10,355,779	3,102,478
Claims handling expense	279,255	127,194
	124,690,047	132,858,328

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 the outcome of legal proceedings and 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 2013. Any changes to estimates will be recorded in the accounting period when they become known.

15(b) Claims development table

The following table shows the development of net undiscounted outstanding claims relative to the ultimate expected claims for the three most recent accident years.

Ultimate claims cost estimate	Prior	2008	2009	2010	2011	2012	2013	Total
	\$	\$	\$	\$	\$	\$	\$	\$
At end of accident year	-	-	-	-	130,285,081	8,353,454	2,613,223	2,613,223
One year later	-	-	-	823,291	140,506,924	8,631,171		8,631,171
Two years later	-	-	1,038,768	825,958	150,311,131			150,311,131
Three years later	-	2,413,062	1,038,231	827,912				827,912
Four years later	757,597	2,413,062	1,038,231					1,038,231
Five years later	758,170	2,429,167						2,429,167
Six years later	758,170							758,170
Total current estimate of ultimate claims costs	758,170	2,429,167	1,038,231	827,912	150,311,131	8,631,171	2,613,223	166,609,005
Cumulative payments	758,170	2,428,178	1,038,206	735,914	45,773,071	1,422,499	337,142	52,493,180
Undiscounted central estimate	-	989	25	91,998	104,538,060	7,208,672	2,276,081	114,115,825
Discount	-	3	-	284	-	27,466	33,059	60,812
Discounted central estimate	-	986	25	91,714	104,538,060	7,181,206	2,243,022	114,055,013
Claims handling expense								279,255
Risk margin								10,355,779
Gross outstanding claims liability								124,690,047
Reinsurance recoveries on outstanding claims liability								(42,597,925)
Net outstanding claims liability								82,092,122

	2013	2012
	\$	\$
15(c) Reconciliation of movement in outstanding claims		
Outstanding claims liability at 1 April	132,858,328	123,111,757
Claims reassessed	16,967,298	15,902,289
Claims paid	(28,164,943)	(16,200,387)
New claims	3,029,364	10,044,669
Outstanding claims liability at 31 March	124,690,047	132,858,328



16 Deferred Tax

Deferred tax assets and liabilities are attributable to the following:

	Assets \$	Liabilities \$	Total \$
2013			
Tax losses	78,813	-	78,813
Other items	-	(78,813)	(78,813)
Total	78,813	(78,813)	-
	Assets \$	Liabilities \$	Total \$
2012			
Tax losses	58,349	-	58,349
Other items	-	(58,349)	(58,349)
Total	58,349	(58,349)	-

At 31 March 2013 there are unused tax losses of \$104,790,191 (2012: \$106,241,660) for which no deferred tax asset is recognised.

17 Contingent Liabilities

The Branch has no contingent liabilities at balance date (2012: Nil).

18 Commitments

The Branch has no commitments for expenditure at balance date (2012: Nil).

19 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:	2013 \$	2012 \$
Reinsurance premiums	692,314	601,102
Reinsurance recoveries	(237,498)	(90,045)
Reinsurance commission earned	(179,016)	(144,201)
Other expense paid/ recharged	(9,922)	(15,221)
Funding from Head Office	-	61,799,990
	265,878	62,151,625

The Branch is covered by the Mitsui global catastrophe reinsurance programme. This global cover is purchased by the Head Office and the premium is not expensed to the Branch.

Outstanding balance with Head Office:

Due to related parties	<u>1,100,227</u>	<u>834,349</u>
------------------------	------------------	----------------



19 Related Party Information (continued)

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.

	2013 \$	2012 \$
Transactions with Aioi:		
Management fees paid	<u>33,500</u>	<u>37,500</u>
Outstanding balance with Aioi:		
Other current assets	<u>83,471</u>	<u>96,658</u>

All the above related party outstanding balances are not secured and are repayable on demand. The balances are non-interest bearing.

Key Management Personnel ("KMP") are those persons who have authority and responsibility for planning, directing and controlling the activities of the Company. The remuneration for such KMP is set out in the table below:

	2013 \$	2012 \$
Short-term employee benefits	<u>133,469</u>	<u>129,841</u>

20 Credit Rating

Mitsui Sumitomo Insurance Company Limited has received an A+ (2012: A+) credit rating from Standard and Poor's. The credit rating is an indication of the ability to pay current and future claims.

21 Reconciliation of the net profit for the period to the net cash flows from operating activities

	2013 \$	2012 \$
Net profit/(loss) for the period	1,450,542	(21,141,976)
Movement in financial assets at fair value through profit or loss	7,544	16,137
Profit on disposal of plant and equipment	(5,217)	-
Depreciation	2,274	8,571
<i>Change in operating assets and liabilities</i>		
Increase in premium receivables	(642,326)	(40,737)
Decrease in taxation receivable	56,345	611,525
(Increase)/decrease in reinsurance receivables	(40,966)	238,683
(Increase)/decrease in reinsurance recoveries	(12,174,629)	4,657,138
Decrease/(increase) in other current assets	404,795	(739,273)
Increase in accounts payable	176,383	80,804
Increase in reinsurance payable	367,328	207,245
(Decrease)/increase in other current liabilities	(9,997)	23,629
(Decrease)/increase in outstanding claims liability	(8,168,281)	9,746,328
Increase in unearned premium reserve	1,038,637	373,179
Increase in amounts due to related parties	<u>265,878</u>	<u>351,635</u>
Net cash flow from operating activities	<u>(17,271,690)</u>	<u>(5,607,112)</u>



22 Solvency

On 25 March 2013 the Branch was granted a full 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 2012 Annual Report and the 31 March 2013 Supplement to the Earnings Report available from www.ms-ad-hd.com, as calculated under the Japanese regulations. The 2012 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.

	2013 Yen in millions (Unaudited)	2012 Yen in millions (Unaudited)
Solvency Margin Total Amount	1,958,579	1,656,380
Risk Amount	673,800	680,488
Solvency Margin Ratio	581.3%	486.8%

23 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 and the requirements of the Insurance (Prudential Supervision) Act 2010. 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.

The Branch has a concentration of credit risk with ANZ National Bank Limited and ASB Bank Limited of \$38,186,051 and \$48,911,201 respectively (2012: \$57,146,849 and \$47,266,762 respectively) representing all cash and cash equivalents held. 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 \$9,202,475 (2012: \$6,468,933).

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
2013	\$	\$	\$	\$	\$
Cash and Cash Equivalents	87,097,252	-	-	-	87,097,252
Investment in Government Stock	535,279	-	-	-	535,279
Premium Receivables	-	-	-	2,493,486	2,493,486
Other Current Assets - Accrued Income	97,190	-	-	-	97,190
Reinsurance Receivable	-	200,047	-	-	200,047
Reinsurance Recoveries	10,362,638	30,070,208	1,501,586	663,493	42,597,925
Total	98,092,359	30,270,255	1,501,586	3,156,979	133,021,179



23 Financial Risk Management (continued)

	Credit Rating				Total
	AA	A	BBB	Not Rated	
2012 Restated*	\$	\$	\$	\$	\$
Cash and Cash Equivalents	104,413,611	-	-	-	104,413,611
Investment in Government Stock	542,823	-	-	-	542,823
Premium Receivables	-	-	-	1,851,160	1,851,160
Other Current Assets - Accrued Income	154,471	-	-	-	154,471
Reinsurance Receivable	-	159,081	-	-	159,081
Reinsurance Recoveries	7,257,272	22,702,809	-	463,215	30,423,296
Total	112,368,177	22,861,890	-	2,314,375	137,544,442

* See Note 1.

As at 31 March 2013 there are no assets that are past due or impaired (2012: 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 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.

2013	Maturing in:				Total
	0 - 1 Year	1 - 2 Years	2 - 4 Years	No Term	
	\$	\$	\$	\$	\$
Financial Liabilities					
Reinsurance Payable	713,510	-	-	-	713,510
Due to Related Parties	-	-	-	1,100,227	1,100,227
Trade creditors and accruals	490,308	-	-	-	490,308
Total	1,203,818	-	-	1,100,227	2,304,045

2012	Maturing in:				Total
	0 - 1 Year	1 - 2 Years	2 - 4 Years	No Term	
	\$	\$	\$	\$	\$
Financial Liabilities					
Reinsurance Payable	346,182	-	-	-	346,182
Due to Related Parties	-	-	-	834,349	834,349
Trade creditors and accruals	433,464	-	-	-	433,464
Total	779,646	-	-	834,349	1,613,995

(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).



23 Financial Risk Management (continued)

(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 \$486,416 (2012: \$798,385), and a corresponding decrease in reinsurance recoverable at 31 March 2013.

(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 cash flows 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.

Cash flow Sensitivity Analysis for Floating Rate Instruments

2013	Interest Rate Risk		
		-1%	+1%
	Carrying Amount	Profit/Equity	Profit/Equity
	\$	\$	\$
<hr/>			
Financial Assets			
Cash and Cash Equivalents	87,097,252	(870,973)	870,973
Total Floating Rate Financial Assets	87,097,252	(870,973)	870,973

2012	Interest Rate Risk		
		-1%	+1%
	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

Fair Value Sensitivity Analysis for Fixed Rate Instruments

		Interest Rate Risk	
		-1%	+1%
	Carrying Amount	Profit/Equity	Profit/Equity
	\$	\$	\$
2013			
Financial Assets			
Investment in Government Stock	535,279	13,764	(13,764)
Total Fixed Rate Financial Assets	535,279	13,764	(13,764)

	Carrying Amount	Profit/Equity	Profit/Equity
	\$	\$	\$
2012			
Financial Assets			
Investment in Government Stock	542,823	15,324	(14,811)
Total Fixed Rate Financial Assets	542,823	15,324	(14,811)



23 Financial Risk Management (continued)

Analysis of Financial Assets/Liabilities

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

2013	Total \$	Loans and Receivables \$	Fair Value through Profit and Loss \$
Financial Assets			
Cash and Cash Equivalents	87,097,252	87,097,252	-
Investment in Government Stock	535,279	-	535,279
Premium Receivables	2,493,486	2,493,486	-
Other Current Assets - Accrued Income	97,190	97,190	-
Reinsurance Receivable	200,047	200,047	-
Total	90,423,254	89,887,975	535,279
	Total \$	Fair Value through Profit and Loss \$	Financial Liabilities at amortised cost \$
Financial Liabilities			
Accounts Payable - Trade Creditors and Accruals	490,308	-	490,308
Reinsurance Payable	713,510	-	713,510
Due to Related Parties	1,100,227	-	1,100,227
Total	2,304,045	-	2,304,045
2012	Total \$	Loans and Receivables \$	Fair Value through Profit and Loss \$
Financial Assets			
Cash and Cash Equivalents	104,413,611	104,413,611	-
Investment in Government Stock	542,823	-	542,823
Premium Receivables	1,851,160	1,851,160	-
Other Current Assets - Accrued Income	154,471	154,471	-
Reinsurance Receivable	159,081	159,081	-
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

Government Stock relates to \$500,000 held by the Public Trust as an Insurance security deposit (2012: \$500,000).



23 Financial Risk Management (continued)

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 (2012: 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.

24 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.

There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.

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



25 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 22 months (2012: 17 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 2.5% per annum (2012: 2.7%).

Canterbury earthquake claims have not been discounted for the time value of money due to the uncertainties in settlement.

(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 23(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 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 9.1% (2012: 2.4%).

The non-earthquake risk margins for both outstanding claims and liability adequacy testing remain unchanged from the 2012 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 comprised of two components; a claim by claim assessment for events that are below the catastrophe retention, and an allowance for exchange rate movements associated with the February 2011 event. These 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% (2012: 75%).

(f) Impact of changes in assumptions

The table below illustrates how changes in key assumptions would impact on reported profit and net outstanding claims liabilities of the Branch.

Variable	Movement in variable	2013	2012
Discount Rate %	1%	(13,477)	(9,635)
	-1%	13,751	9,826
IBNR Tail Strengthening	+1% p.a. for 4 years	137,256	104,677
Risk Margin %	1%	717,364	993,326
	-1%	(717,364)	(993,326)



25 Actuarial Assumptions and Methods (continued)

(g) 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 2013.

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 2013 are outlined in the note listed above.

The actuary has no financial interest in the Branch.

26 Events Occurring After Reporting Date

There are no matters past balance date that has significantly affected, or may significantly affect the Branch's operations, the results of these operations for the year ended 31 March 2013 or the Branch's financial position as at 31 March 2013.





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 24. The financial statements comprise the statement of financial position as at 31 March 2013, the statements of comprehensive income, movement in head office account and cash flows 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 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 24:

- 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 2013 and of its financial performance and cash flows for the year then ended.

Canterbury earthquakes

We draw attention to Notes 10 and 15 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 the preceding years. 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.



15 August 2013
Auckland

23 July 2013



The Directors
Mitsui Sumitomo Insurance Company Limited
C/- Nancy George
Auckland
New Zealand

Dear Directors

Review of Actuarial Information contained in Financial Statements as at 31 March 2013

Finity Consulting Pty Limited (Finity) has been asked by Mitsui Sumitomo Insurance Company Limited, New Zealand Branch (Mitsui NZ) to carry out a review of the 31 March 2013 actuarial information contained in the financial statements and provide an opinion as to its appropriateness. John Smeed is an employee of Finity and is the Appointed Actuary to Mitsui NZ. Finity has no relationship with Mitsui NZ apart from the Appointed Actuary role.

Mitsui NZ's policy is to seek and adopt the advice of the Appointed Actuary in respect of the actuarial information contained in its financial statements. We confirm that the financial statements as at 31 March 2013 have been prepared in accordance with this policy, and as such this satisfies the requirements of the Act.

Having carried out our actuarial review nothing has come to our attention that would lead us to believe that the actuarial information contained in the financial statements for Mitsui NZ as at 31 March 2013 are inappropriate.

This review is being provided for the sole use of Mitsui NZ for the purpose stated above. It is not intended, nor necessarily suitable, for any other purpose and should only be relied on the purpose for which it is intended.

Yours sincerely

John Smeed
Appointed Actuary

Jeremy Weight

Fellows of the New Zealand Society of Actuaries

Finity Consulting Pty Limited
ABN 89 111 470 270
www.finity.com.au
www.finityconsulting.co.nz

Sydney
Level 7, 155 George Street
The Rocks NSW 2000
Ph: +61 2 8252 3300
Fax: +61 2 8252 3399

Melbourne
Level 3, 30 Collins Street
Melbourne VIC 3000
Ph: +61 3 8080 0900
Fax: +61 3 8080 0999

Auckland
Level 27, 188 Quay St
Auckland 1010
Ph: +64 9 363 2894
Fax: +64 9 363 2895



mitsui sumitomo insurance company, limited

Financial Statements - March 31, 2012 and 2013

(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



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, 2012 and 2013, 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, 2012 and 2013, and their financial performance for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

June 20, 2013
Tokyo, Japan

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets

As of March 31, 2012 and 2013

	2012	2013
	(Yen in millions)	
<u>Assets</u>		
Assets		
Cash, deposits and savings:		
Cash on hand	¥ 184	193
Deposits in banks	<u>301,872</u>	<u>188,693</u>
Total cash, deposits and savings	302,057	188,886
Call loans	22,000	69,000
Receivables under resale agreements	41,680	48,545
Monetary claims bought	78,563	83,966
Money trusts	9,738	9,978
Investments in securities:		
Government bonds	715,385	928,961
Municipal bonds	107,084	110,703
Corporate bonds	777,734	675,448
Stocks	1,417,612	1,640,679
Foreign securities	729,400	738,873
Other investments in securities	<u>37,009</u>	<u>23,252</u>
Total investments in securities	3,784,227	4,117,917
Loans:		
Policy loans	11,695	10,740
General loans	<u>612,655</u>	<u>565,291</u>
Total loans	624,350	576,032
Tangible fixed assets:		
Land	92,341	88,895
Buildings	141,725	134,195
Construction in progress	513	5,319
Other tangible fixed assets	<u>15,009</u>	<u>13,506</u>
Total tangible fixed assets	249,590	241,916
Intangible fixed assets:		
Software	8,006	8,069
Other intangible fixed assets	<u>14,193</u>	<u>35,247</u>
Total intangible fixed assets	22,199	43,316

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2012	2013
	(Yen in millions)	
Other assets:		
Premiums receivable	¥ 3,457	3,551
Due from agents	95,654	103,303
Co-insurance business receivable	9,972	8,733
Reinsurance business receivable	64,553	67,342
Foreign reinsurance business receivable	110,383	153,664
Agent business receivable	230	232
Other receivables	22,854	25,544
Accrued income	7,385	6,408
Guarantee deposits	18,492	18,119
Deposits with the Japan Earthquake Reinsurance Company	8,214	9,236
Suspense payments	54,595	39,544
Assets related to derivative transactions	32,996	50,360
Other assets	<u>2,345</u>	<u>1,488</u>
Total other assets	431,135	487,529
Deferred tax assets	81,002	-
Customers' liabilities under acceptances and guarantees	5,737	39,825
Bad debt reserve	<u>(5,468)</u>	<u>(5,500)</u>
Total assets	¥ <u>5,646,816</u>	<u>5,901,413</u>

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2012	2013
	(Yen in millions)	
<u>Liabilities and Net Assets</u>		
Liabilities		
Policy liabilities:		
Outstanding claims	¥ 698,949	643,869
Underwriting reserves	<u>3,455,090</u>	<u>3,337,789</u>
Total policy liabilities	4,154,039	3,981,659
Bonds issued	271,165	241,176
Other liabilities:		
Co-insurance business payable	11,656	11,690
Reinsurance business payable	45,628	50,603
Foreign reinsurance business payable	18,495	23,274
Agent business payable	11	24
Borrowings	-	50,000
Income taxes payable	4,355	4,652
Guarantee money	18,913	20,314
Advance received	69	108
Other payables	29,086	36,686
Suspense receipts	17,247	19,591
Liabilities related to derivative transactions	12,920	13,692
Cash collateral received under derivative transactions	19,174	60,839
Lease obligations	2,353	2,064
Asset retirement obligations	5,229	5,128
Other liabilities	<u>1</u>	<u>1</u>
Total other liabilities	185,142	298,674
Reserve for pension and retirement benefits	83,957	87,390
Reserve for retirement benefits for officers	1,456	1,257
Accrued bonuses for employees	9,997	10,588
Reserves under the special laws:		
Reserve for price fluctuation	<u>2,639</u>	<u>5,151</u>
Total reserves under the special laws	2,639	5,151
Deferred tax liabilities	-	43,610
Acceptances and guarantees	<u>5,737</u>	<u>39,825</u>
Total liabilities	¥ 4,714,135	4,709,334

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2012	2013
	(Yen in millions)	
Net Assets		
Stockholders' equity:		
Common stock	¥ 139,595	139,595
Capital surplus:		
Additional paid-in capital	<u>93,107</u>	<u>93,107</u>
Total capital surplus	93,107	93,107
Retained earnings:		
Legal earned reserve	46,487	46,487
Other retained earnings:		
Special reserve	283,400	-
Tax-exempted reserve for accelerated depreciation	15,900	15,660
Retained earnings brought forward	<u>(121,482)</u>	<u>182,416</u>
Total other retained earnings	<u>177,817</u>	<u>198,077</u>
Total retained earnings	224,305	244,565
Total stockholders' equity	457,008	477,268
Valuation and translation adjustments:		
Net unrealized gains/(losses) on investments in securities	459,287	688,381
Net deferred gains/(losses) on hedges	<u>16,384</u>	<u>26,428</u>
Total valuation and translation adjustments	<u>475,671</u>	<u>714,810</u>
Total net assets	<u>932,680</u>	<u>1,192,079</u>
Total liabilities and net assets	¥ <u>5,646,816</u>	<u>5,901,413</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Income

For the years ended March 31, 2012 and 2013

	2012	2013
	(Yen in millions)	
<u>Ordinary income and expenses</u>		
Ordinary income:		
Underwriting income:		
Net premiums written	¥ 1,265,997	1,313,831
Deposit premiums from policyholders	124,053	119,925
Investment income on deposit premiums from policyholders	47,434	44,061
Reversal of outstanding claims	-	54,330
Reversal of underwriting reserves	277,326	116,824
Foreign exchange gains	978	12,253
Other underwriting income	99	60
Total underwriting income	1,715,890	1,661,287
Investment income:		
Interest and dividends income	102,343	101,814
Investment gains on money trusts	141	290
Gains on sales of securities	41,896	56,176
Gains on redemption of securities	583	1,184
Gains on derivative transactions	5,285	6,894
Foreign exchange gains	9,754	4,627
Other investment income	966	872
Transfer of investment income on deposit premiums from policyholders	(47,434)	(44,061)
Total investment income	113,537	127,798
Other ordinary income:	3,275	3,798
Total ordinary income	1,832,703	1,792,884
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	1,000,737	887,436
Loss adjustment expenses	76,093	76,390
Commissions and collection expenses	221,457	228,670
Maturity refunds to policyholders	256,214	280,598
Dividends to policyholders	1,423	839
Provision for outstanding claims	121,280	-
Other underwriting expenses	503	500
Total underwriting expenses	1,677,711	1,474,436
Investment expenses:		
Investment losses on money trusts	18	48
Losses on sales of securities	22,542	2,988
Impairment losses on securities	39,206	28,382
Losses on redemption of securities	789	879
Other investment expenses	7,155	5,951
Total investment expenses	69,713	38,250

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Income (Continued)

	2012	2013
	(Yen in millions)	
Operating expenses and general and administrative expenses	¥ 210,525	206,538
Other ordinary expenses:		
Interest expense	2,365	7,128
Provision for bad debts	-	263
Losses on bad debts	4	1
Other ordinary expenses	2,560	899
Total other ordinary expenses	<u>4,930</u>	<u>8,293</u>
Total ordinary expenses	<u>1,962,880</u>	<u>1,727,518</u>
Ordinary profit/(loss)	(130,177)	65,366
<u>Extraordinary income and losses</u>		
Extraordinary income:		
Gains on sales of fixed assets	694	1,891
Reversal of reserves under the special laws:		
Reversal of reserve for price fluctuation	<u>2,756</u>	<u>-</u>
Total reversal of reserves under the special laws	<u>2,756</u>	<u>-</u>
Total extraordinary income	3,451	1,891
Extraordinary losses:		
Losses on sales of fixed assets	1,379	1,337
Impairment losses on fixed assets	3,141	355
Provision for reserves under the special laws:		
Provision for reserve for price fluctuation	<u>-</u>	<u>2,511</u>
Total provision for reserves under the special laws	<u>-</u>	<u>2,511</u>
Total extraordinary losses	<u>4,521</u>	<u>4,204</u>
Income/(loss) before income taxes	(131,246)	63,053
Income taxes-current	2,825	1,714
Income taxes-deferred	<u>(3,465)</u>	<u>18,681</u>
Total income taxes	<u>(639)</u>	<u>20,395</u>
Net income/(loss)	¥ <u>(130,607)</u>	<u>42,657</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Changes in Net Assets

For the years ended March 31, 2012 and 2013

	2012	2013
	(Yen in millions)	
Stockholders' equity:		
Common stock:		
Beginning balance	¥ 139,595	139,595
Ending balance	<u>139,595</u>	<u>139,595</u>
Capital surplus:		
Additional paid-in capital:		
Beginning balance	93,107	93,107
Ending balance	<u>93,107</u>	<u>93,107</u>
Retained earnings:		
Legal earned reserve:		
Beginning balance	46,487	46,487
Ending balance	<u>46,487</u>	<u>46,487</u>
Other retained earnings:		
Special reserve:		
Beginning balance	283,400	283,400
Changes for the year:		
Reversal of special reserve	-	(283,400)
Total changes for the year	-	(283,400)
Ending balance	<u>283,400</u>	-
Tax-exempted reserve for accelerated depreciation:		
Beginning balance	8,249	15,900
Changes for the year:		
Provision for tax-exempted reserve for accelerated depreciation	7,706	-
Reversal of tax-exempted reserve for accelerated depreciation	(55)	(239)
Total changes for the year	<u>7,651</u>	(239)
Ending balance	<u>15,900</u>	<u>15,660</u>
Tax-exempted special account for accelerated depreciation:		
Beginning balance	6,297	-
Changes for the year:		
Reversal of tax-exempted special account for accelerated depreciation	(6,297)	-
Total changes for the year	<u>(6,297)</u>	-
Ending balance	-	-
Retained earnings brought forward:		
Beginning balance	27,297	(121,482)
Changes for the year:		
Reversal of special reserve	-	283,400
Provision for tax-exempted reserve for accelerated depreciation	(7,706)	-
Reversal of tax-exempted reserve for accelerated depreciation	55	239
Reversal of tax-exempted special account for accelerated depreciation	6,297	-
Dividends paid	(16,818)	(22,397)
Net income/(loss)	<u>(130,607)</u>	<u>42,657</u>
Total changes for the year	<u>(148,779)</u>	<u>303,899</u>
Ending balance	<u>(121,482)</u>	<u>182,416</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Changes in Net Assets (Continued)

	2012	2013
	(Yen in millions)	
Total stockholders' equity:		
Beginning balance	¥ 604,434	457,008
Changes for the year:		
Dividends paid	(16,818)	(22,397)
Net income/(loss)	(130,607)	42,657
Total changes for the year	(147,425)	20,259
Ending balance	457,008	477,268
Valuation and translation adjustments:		
Net unrealized gains/(losses) on investments in securities:		
Beginning balance	434,334	459,287
Changes for the year:		
Net changes of items other than stockholders' equity	24,953	229,094
Total changes for the year	24,953	229,094
Ending balance	459,287	688,381
Net deferred gains/(losses) on hedges:		
Beginning balance	6,234	16,384
Changes for the year:		
Net changes of items other than stockholders' equity	10,150	10,044
Total changes for the year	10,150	10,044
Ending balance	16,384	26,428
Total net assets:		
Beginning balance	1,045,003	932,680
Changes for the year:		
Dividends paid	(16,818)	(22,397)
Net income/(loss)	(130,607)	42,657
Net changes of items other than stockholders' equity	35,103	239,138
Total changes for the year	(112,322)	259,398
Ending balance	¥ 932,680	1,192,079

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements

For the years ended March 31, 2012 and 2013

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.

The accompanying non-consolidated financial statements are expressed in yen. As permitted by the regulations under the Corporate Accounting Regulations, amounts are rounded down to the nearest million of yen, except for those stated otherwise. As a result, the totals shown in the accompanying non-consolidated financial statements in yen do not necessarily agree with the sums of the individual amounts.

2. Accounting policies

(1) Valuation policies and methods of securities (including those recorded as Cash, deposits and savings, and Monetary claims bought, as set forth by the Enforcement Regulations of the Japanese Insurance Business Law) and money trusts

- (i) Investments in subsidiaries and affiliated companies are valued at cost determined by the moving average method.
- (ii) Available-for-sale securities (except for those of which fair value is not practically determinable) are valued at their fiscal year-end market prices.
Net unrealized gains/losses are reported as a separate line item of net assets, and cost of sales is calculated by the moving average method.
- (iii) Available-for-sale securities for those of which fair value is not practically determinable are valued at cost determined by the moving average method.
- (iv) Money trusts which hold investment securities and are specifically managed for the Company are valued at their year-end market prices.

(2) Valuation policies and methods of derivative financial instruments

All derivative financial instruments, except for those which qualify for hedge accounting, are recognized at fair value and subsequent changes in their fair value are recognized in earnings when incurred.

(3) Depreciation methods 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.

(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates)

In accordance with the amendment of the Corporation Tax Law, effective from April 1, 2012, the Company has changed the depreciation method for tangible fixed assets acquired on or after April 1, 2012. The effects of this change were to increase Ordinary profit and Net income before income taxes by ¥259 million.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

(4) Depreciation methods of intangible fixed assets

Capitalized software for internal use is amortized by the straight-line method based on estimated useful lives (5 years).

(5) Translation of foreign currency assets and liabilities

Assets and liabilities denominated in foreign currencies are translated into Japanese yen in accordance with the provisions of the Accounting Standard for Foreign Currency Transactions.

(6) Accounting policies for reserves

(i) Bad debt reserve

Bad debt reserve is established under the internal standard for self-assessment of assets and the policy for write-off and provision. Bad debt reserve for loans to debtors who are legally deemed to be insolvent due to bankruptcy or special liquidation, or whose notes are under suspension at clearing houses, and loans to debtors who are deemed to be substantially insolvent is provided based on the amount remaining after deducting the resale value of collateral and the amount collectible through guarantees. Bad debt reserve for loans to debtors who are likely to become insolvent in the future is provided based on the balance remaining after deducting the resale value of collateral, the amount collectible through guarantees and the amount expected to be repaid by the debtor in consideration of the debtor's solvency.

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

Bad debt reserve for all loans and receivables is provided based on the assessment under the internal standard for self-assessment of assets. The assessment is performed by the departments which are responsible for respective assets. The independent internal audit departments review 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 end of the fiscal year.

Unrecognized prior service costs are amortized using the straight-line method over a certain number of years that does not exceed the average remaining work period of employees at the time of occurrence.

Unrecognized actuarial gains and losses are amortized, commencing from the following year, using the straight-line method over a certain number of years that does not exceed the average remaining work period of employees at the time of occurrence.

(iii) Reserve for retirement benefit for officers

Reserve for retirement benefits that covers the cost for services rendered by officers and operating officers of the Company through the year ended March 31, 2005 when the

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

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 fluctuation of investments in securities.

(7) Hedge accounting

Under accounting principles generally accepted in Japan ("Japanese GAAP"), several hedge accounting models are allowed. Two fundamental approaches are the deferred hedge method and the fair value hedge method. Under the deferred hedge method, gains and losses that resulted from changes in the fair value of derivative financial instruments are deferred and accounted for as a separate line item of net assets. Under the fair value hedge method, which is allowed only with respect to available-for-sale securities being the hedged item, gains and losses on changes in fair value of the hedging instrument, are recognized in earnings together with the corresponding gains or losses of the hedged item attributable to the risk being hedged.

In addition, for certain derivative instruments, exceptional treatments are permitted under Japanese GAAP. Assets and liabilities denominated in foreign currencies and hedged by foreign exchange forward contracts can be translated at the foreign exchange rate stipulated in the forward contracts. The foreign exchange forward contracts used as hedging instruments are not measured at fair value either at the initial recognition or subsequent reporting dates (the allocation method). Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at fair value, but the differentials paid or received under the swap agreements are recognized and included in interest expense or income of hedged items (the exceptional method).

Gains and losses on equity forward contracts used for hedging risks of variability in fair value of investments in equity securities are accounted for under the deferred hedge method. Gains and losses on currency swap contracts and forward exchange contracts used for hedging foreign currency risks are accounted for under either the deferred hedge method, the fair value hedge method or the allocation method. Interest rate swap contracts for hedging risks of variability in cash flows of Loans, Bonds or Borrowings arising from fluctuations in interest rates are accounted for using the deferred hedge method or the exceptional method when they meet certain criteria.

Hedge effectiveness is assessed quarterly by comparing cumulative fluctuations of fair value or cash flows of hedged items and hedging instruments during the periods from the respective start dates of the hedges to the assessment dates. When the hedged item and the hedging instruments are highly and clearly interrelated or when an interest rate swap transaction meets

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

the criteria for applying the exceptional method, hedge effectiveness is not assessed.

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 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 of interest rate swaps for the ALM is evaluated on a portfolio basis, based on whether upward and downward movements in value of the hedged item and the hedging instrument offset each other within certain range, respective to changes in the interest rate.

(8) Accounting for consumption taxes

Consumption taxes received or paid are not included in income and expenses, except for those relating to Loss adjustment expenses, Operating expenses and general and administrative expenses. Consumption taxes excluded from income and expense are recorded at the net amount on the balance sheet. Non-deductible consumption taxes are recognized as expense for the period, except for those relating to purchase of depreciable fixed assets which are not charged to expense but deferred as Suspense payments and amortized over a period of five years on a straight-line basis.

3. Changes in presentation

In accordance with the Enforcement Regulations of the Insurance Business Law (Ministry of Finance Ordinance No. 5 of 1996) revised by the Cabinet Office Ordinance for Partial Revision to the Ordinance for Enforcement of the Banking Act (Cabinet Office Ordinance No.11 on March 28, 2013), effective from the year ended March 31, 2013, cash collateral received under derivative transactions which was previously included in Guarantee money within Other liabilities has been presented in a separate line item.

The amounts for the year ended March 31, 2012 have been reclassified to conform with the new presentation for the year ended March 31, 2013. Accordingly, Guarantee money (¥38,087 million) that was reported under Other liabilities in the balance sheet as of March 31, 2012 is presented as Guarantee Money (¥18,913 million) and Cash collateral received under derivative transactions (¥19,174 million) in the accompanying balance sheet.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets

As of March 31, 2012 and 2013

1. The amounts of investments in securities loaned under securities lending agreements are as follows:

(Yen in millions)

March 31, 2012	March 31, 2013
28,825	27,914

(Note) The above amounts are included in Stocks as of March 31, 2012 and in Stocks and Foreign securities as of March 31, 2013.

2. The amounts of loans to borrowers in bankruptcy, overdue loans, loans overdue for 3 months or more and restructured loans are as follows:

(Yen in millions)

	March 31, 2012	March 31, 2013
Loans to borrowers in bankruptcy	199	139
Overdue loans	2,172	2,242
Loans overdue for 3 months or more	890	785
Restructured loans	1,394	3,031
Total	4,656	6,199

(Note) Loans to borrowers in bankruptcy represent those, excluding any part of bad debt that has been written off, on which accrued interest receivable is not recognized because repayments of principal or interest have been 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 or 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 borrowers in bankruptcy and (b) loans that have been granted grace for interest payments in order to assist debtor's operational restructuring or financial recovery.

Loans overdue for 3 months or more represent those of which principal or interest has been past due for 3 months or more after the contractual due date for repayment of principal or interest. The loans to borrowers in bankruptcy and overdue loans are excluded from this category.

Restructured loans are those 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 borrowers in bankruptcy, overdue loans and loans overdue for 3 months or more are excluded from this category.

3. The amounts of accumulated depreciation and accelerated depreciation of tangible fixed assets are as follows:

(Yen in millions)

	March 31, 2012	March 31, 2013
Accumulated depreciation	281,569	273,967

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

Accelerated depreciation	16,471	15,610
--------------------------	--------	--------

(Note) As permitted under Japanese tax legislation for the purpose of deferral in recognizing taxable income, acquisition cost of certain qualifying properties is reduced to offset the taxable income that resulted from sales of assets to be replaced by the acquired asset or receipt of governmental subsidies provided for the acquisition of the new asset. The total amounts deducted from the original acquisition cost of the qualifying properties held by the Company as of March 31, 2012 and 2013 were ¥16,471 million and ¥15,610 million, respectively.

4. The total amounts receivable from and payable to affiliated companies are as follows:

	(Yen in millions)	
	March 31, 2012	March 31, 2013
Total amounts receivable	9,141	12,772
Total amounts payable	13,651	16,635

(Notes)

- As of March 31, 2012, total amounts receivable mainly consist of Foreign reinsurance business receivable, Suspense payments and other including corporate bonds amounted to ¥2,784 million and total amounts payable mainly consist of Guarantee money and Foreign reinsurance business payable.
- As of March 31, 2013, total amounts receivable mainly consist of Foreign reinsurance business receivable, General loans and other including corporate bonds amounted to ¥4,303 million and total amounts payable mainly consist of Guarantee money and Foreign reinsurance business payable.

5. Significant components of deferred tax assets and liabilities are as follows:

	(Yen in millions)	
	March 31, 2012	March 31, 2013
Deferred tax assets:		
Underwriting reserves	172,443	154,127
Land and buildings	9,730	8,013
Tax loss carried forward	47,165	42,354
Investments in securities	30,290	32,877
Reserve for pension and retirement benefits	26,993	27,408
Outstanding claims	9,985	16,939
Software	15,754	14,028
Others	17,047	16,837
Total gross deferred tax assets	329,411	312,585
Less valuation allowance	(25,491)	(27,539)
Total net deferred tax assets	303,919	285,046
Deferred tax liabilities:		
Net unrealized gains/(losses) on investments in securities	(206,205)	(307,695)
Others	(16,710)	(20,960)
Total gross deferred tax liabilities	(222,916)	(328,656)

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

Total deferred tax assets net of deferred tax liabilities	81,002	(43,610)
---	--------	----------

6. Guarantee and similar arrangements for subsidiaries and affiliated companies

As of March 31, 2012

(Guarantees)

The Company guarantees insurance-related liabilities of its subsidiary, MSI Corporate Capital Limited in the amount of ¥35,146 million.

(Arrangements similar to guarantee)

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

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.

For the agreement with MSPL, the Company and MS&AD are jointly liable for the obligation. The aggregate amount of liabilities and assets of these companies were ¥3,348,929 million (including Policy liabilities 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.

As of March 31, 2013

(Guarantees)

The Company guarantees insurance-related liabilities of its subsidiary, MSI Corporate Capital Limited in the amount of ¥41,444 million.

(Arrangements similar to guarantee)

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

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.

For the agreement with MSPL, the Company and MS&AD are jointly liable for the obligation. The aggregate amount of liabilities and assets of these companies were ¥3,968,144 million (including Policy liabilities in the amount of ¥3,892,117 million) and ¥4,230,846 million, respectively.

None of these companies were in a triggering situation mentioned above as of March 31, 2013.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

7. Investments in securities include investments in affiliated companies, which are as follows:

	(Yen in millions)	
	March 31, 2012	March 31, 2013
Stocks	383,834	434,797
Capital	15,743	16,892
Corporate bonds	2,784	4,303

8. The amounts of pledged assets are as follows:

	(Yen in millions)	
	March 31, 2012	March 31, 2013
Investments in securities	85,842	82,841

(Note) The above amounts primarily consist of collateral assets required for overseas operations and for Real Time Gross Settlement of the current account with the Bank of Japan.

9. Details of outstanding claims and underwriting reserves are as follows:

- (1) Details of outstanding claims

	(Yen in millions)	
	March 31, 2012	March 31, 2013
Gross outstanding claims (except for (b))	927,415	740,708
Reinsurance recoverable on unpaid losses	280,241	147,550
Net (a)	647,173	593,158
Outstanding claims relating to earthquake and compulsory automobile liability insurance (b)	51,775	50,711
Total (a) + (b)	698,949	643,869

- (2) Details of underwriting reserves

	(Yen in millions)	
	March 31, 2012	March 31, 2013
Gross ordinary underwriting reserves	1,080,726	1,129,390
Reinsurance recoverable on underwriting reserves	43,344	53,249
Net (a)	1,037,381	1,076,141
Gross refund reserves	1,752,597	1,629,676
Reinsurance recoverable on refund reserves	7	5
Net (b)	1,752,590	1,629,670
Other underwriting reserves (c)	665,118	631,978
Total (a) + (b) + (c)	3,455,090	3,337,789

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

10. The amounts of net assets per share are as follows:

	March 31, 2012	March 31, 2013
Net assets per share (in Yen)	664.11	848.81
Amounts deducted from net assets (Yen in millions)	-	-
Outstanding common shares (in thousands of shares)	1,404,402	1,404,402

11. Retirement benefits

(1) Details of retirement benefit obligations

	(Yen in millions)	
	March 31, 2012	March 31, 2013
(i) Retirement benefit obligations	(275,693)	(277,012)
(ii) Plan assets	165,008	180,354
(iii) Unfunded retirement benefit obligations (i + ii)	(110,684)	(96,657)
(iv) Unrecognized actuarial losses/(gains)	26,727	9,267
(v) Reserve for pension and retirement benefits (iv - iii)	(83,957)	(87,390)

(2) Actuarial assumptions for calculation of retirement benefit obligations

- (i) Attribution method of retirement benefits over service period
The benefit/years of service method

- (ii) Discount rate

March 31, 2012	March 31, 2013
2.00 %	2.00 %

- (iii) Expected rate of return on plan assets

March 31, 2012	March 31, 2013
3.00 %	3.00 %

- (iv) Amortization period for unrecognized prior service costs

March 31, 2012	March 31, 2013
4 years	4 years

(Note) Unrecognized prior service costs are amortized using the straight-line method over a certain number of years that does not exceed the average remaining work period of employees at the time of occurrence.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

(v) Amortization period for unrecognized actuarial gains and losses

March 31, 2012	March 31, 2013
10 years	10 years

(Note) Unrecognized actuarial gains and losses are amortized, commencing from the following year, using the straight-line method over a certain number of years that does not exceed the average remaining work period of employees at the time of occurrence.

12. Among assets received under resale agreements, the amounts of those which the Company has the right to sell or pledge are as follows:

	(Yen in millions)	
	March 31, 2012	March 31, 2013
Commercial papers	1,999	12,098
Securities	689	449
Total	2,689	12,548

(Note) Commercial papers and securities above are all held by the Company.

13. Guarantees to transactions of a limited partnership entity

As of March 31, 2012

The Company provides guarantees to transactions of a limited partnership entity. Aggregate net present value of those transactions was ¥182,250 million in a negative liability position as of March 31, 2012. This amount was not included in Customers' liabilities under acceptances and guarantees or Acceptances and guarantees since there is no substantial exposure.

As of March 31, 2013

The Company provides guarantees to transactions of a limited partnership entity. Aggregate net present value of those transactions was ¥192,440 million in a negative liability position as of March 31, 2013. This amount was not included in Customers' liabilities under acceptances and guarantees or Acceptances and guarantees since there is no substantial exposure.

14. The amounts of the unutilized portion of commitment lines given to third parties are as follows:

	(Yen in millions)	
	March 31, 2012	March 31, 2013
	1,349	648

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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income

For the years ended March 31, 2012 and 2013

1. The aggregate amounts of income and expenses resulting from transactions with affiliated companies are as follows:

	(Yen in millions)	
	For the year ended March 31, 2012	For the year ended March 31, 2013
Income	41,978	44,032
Expenses	58,205	67,312

(Note) Income mainly consists of gross premiums written, interest and dividends income on investments in securities, and expenses mainly consist of outsourcing expenses and gross claims paid.

2.

- (1) Details of net premiums written are as follows:

	(Yen in millions)	
	For the year ended March 31, 2012	For the year ended March 31, 2013
Gross premiums written	1,515,023	1,595,189
Reinsurance premiums ceded	249,025	281,358
Net	1,265,997	1,313,831

- (2) Details of net claims paid are as follows:

	(Yen in millions)	
	For the year ended March 31, 2012	For the year ended March 31, 2013
Gross claims paid	1,513,353	1,204,712
Claim recoveries from ceded reinsurance	512,615	317,275
Net	1,000,737	887,436

- (3) Details of commissions and collection expenses are as follows:

	(Yen in millions)	
	For the year ended March 31, 2012	For the year ended March 31, 2013
Commissions and collection expenses paid	243,365	252,265
Reinsurance commissions received	21,908	23,594
Net	221,457	228,670

- (4) Details of provision for/(reversal of) outstanding claims are as follows:

	(Yen in millions)	
	For the year ended March 31, 2012	For the year ended March 31, 2013
Gross provision for outstanding claims (except for (b))	252,170	(185,881)
Less reinsurance recoverable on unpaid losses	122,147	(132,615)
Net (a)	130,023	(53,266)
Provision for/(reversal of) outstanding claims relating to earthquake and compulsory automobile liability insurance (b)	(8,743)	(1,063)
Total (a) + (b)	121,280	(54,330)

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

- (5) Details of provision for/(reversal of) underwriting reserves are as follows:

	(Yen in millions)	
	For the year ended March 31, 2012	For the year ended March 31, 2013
Gross provision for ordinary underwriting reserves	25,625	49,333
Less reinsurance recoverable on underwriting reserves	3,730	10,098
Net (a)	21,894	39,235
Provision for/(reversal of) refund reserves	(94,836)	(122,921)
Less reinsurance recoverable on refund reserves	(3)	(1)
Net (b)	(94,832)	(122,919)
Reversal of other underwriting reserves (c)	(204,389)	(33,140)
Total (a) + (b) + (c)	(277,326)	(116,824)

- (6) Details of interest and dividends income are as follows:

	(Yen in millions)	
	For the year ended March 31, 2012	For the year ended March 31, 2013
Interest on deposits and savings	3,148	3,309
Interest on call loans	27	27
Interest on receivables under resale agreements	40	57
Interest on monetary claims bought	1,553	1,381
Interest and dividends income on investments in securities	79,578	81,505
Interest on loans	11,568	9,950
Rental income on properties	5,865	5,399
Other interest and dividends income	561	182
Total	102,343	101,814

3. The total valuation gains/(losses) included in investment gains and losses on money trusts are as follows:

	(Yen in millions)	
	For the year ended March 31, 2012	For the year ended March 31, 2013
	64	271

The total valuation gains/(losses) included in gains and losses on derivative transactions are as follows:

	(Yen in millions)	
	For the year ended March 31, 2012	For the year ended March 31, 2013
	(285)	3,317

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

4. The amounts of net income/(loss) per share are as follows:

	For the year ended March 31, 2012	For the year ended March 31, 2013
Net income/(loss) per share (in Yen)	(92.99)	30.37
Net income/(loss) attributable to common shares (Yen in millions)	(130,607)	42,657
Average outstanding common shares during the year (in thousands of shares)	1,404,402	1,404,402

(Notes)

1. Since net loss was recognized and there was no potential dilution for the year ended March 31, 2012, diluted net income/(loss) per share is not disclosed.
 2. Since there was no potential dilution for the year ended March 31, 2013, diluted net income/(loss) per share is not disclosed.
5. Retirement benefit expenses included in loss adjustment expenses, operating expenses and general and administrative expenses are as follows:

	For the year ended March 31, 2012	For the year ended March 31, 2013
		(Yen in millions)
Service costs	10,939	10,710
Interest cost	5,447	5,494
Expected return on plan assets	(4,761)	(4,950)
Amortization of unrecognized actuarial losses	6,497	5,331
Total retirement benefit expense	18,123	16,586
Contributions paid to defined contribution plan	1,635	1,644
Total	19,758	18,231

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

	For the year ended March 31, 2012	For the year ended March 31, 2013
		(%)
Statutory tax rate	The information for	33.2
(Reconciliation)	the year ended	
Tax exempted dividend income	March 31, 2012 is	(9.6)
Increase in valuation allowance	omitted since loss	3.5
Effects of the change in corporate income tax rate	before income taxes	3.3
Entertainment and other expenses not deductible for tax purposes	was recognized.	1.0
Others		0.9
Effective tax rate		32.3

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

7. Impairment losses on fixed assets are recognized as follows:

For the year ended March 31, 2012

(Yen in millions)

Use	Asset category	Description of assets	Impairment losses on fixed assets	Breakdown	
Investment properties	Buildings	A building for rent in Aomori	384	Buildings	384
Idle real estate and real estate for sale	Land and buildings	8 properties, including office buildings in Tokyo	2,756	Land Buildings	36 2,719

Fixed assets used for insurance business operations are grouped as a single asset group. Other assets such as Investment properties, idle assets and assets for sale are grouped on an individual basis.

Fixed assets are reviewed for impairment whenever events or change in circumstances, such as a significant decline in the value of an asset (asset group) or change in the intended use of the asset, indicate that the carrying amount of the asset (asset group) may not be recoverable. An impairment loss is measured at the amount by which the carrying amount of the asset (asset group) exceeds its recoverable amount, which is the higher of 1) the sum of discounted cash flows from the continued use and eventual disposition of the asset (asset group) or 2) the net sales value at disposition.

The carrying amounts of the above investment properties and idle properties have been reduced to their recoverable amounts. The aggregate amount of ¥3,141 million was recorded in Impairment losses on fixed assets under Extraordinary losses.

The recoverable amounts of these assets represent their net sales value, which were determined based on the appraisal values provided by independent appraisers.

For the year ended March 31, 2013

(Yen in millions)

Use	Asset category	Description of assets	Impairment losses on fixed assets	Breakdown	
Investment properties	Buildings	2 properties, including buildings for rent in Aichi	170	Buildings	170
Idle real estate and real estate for sale	Land and buildings	4 properties, including office buildings in Gifu	185	Land Buildings	84 100

Fixed assets used for insurance business operations are grouped as a single asset group. Other assets such as Investment properties, idle assets and assets for sale are grouped on an individual basis.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

Fixed assets are reviewed for impairment whenever events or change in circumstances, such as a significant decline in the value of an asset (asset group) or change in the intended use of the asset, indicate that the carrying amount of the asset (asset group) may not be recoverable. An impairment loss is measured at the amount by which the carrying amount of the asset (asset group) exceeds its recoverable amount, which is the higher of 1) the sum of discounted cash flows from the continued use and eventual disposition of the asset (asset group) or 2) the net sales value at disposition.

The carrying amounts of the above investment properties and idle properties have been reduced to their recoverable amounts. The aggregate amount of ¥355 million was recorded in Impairment losses on fixed assets under Extraordinary losses.

The recoverable amounts of these assets represent their net sales value, which were determined based on the appraisal values provided by independent appraisers.

8. Related party transactions are as follows:

For the year ended March 31, 2012

Category	Company name	Voting rights (%)	Relationship	Transactions	Transaction amounts (Yen in millions)	Account	Balances (Yen in millions)
Affiliated companies	MS&AD Loan Services Company, Limited	Direct 12.6% Indirect 25.8%	Temporary transfer of director Credit guarantee related to consumer loans provided by the Company Administrative service related to housing loan guarantee insurance underwritten by the Company	Guarantee a debt related to transaction with third party	112,794	-	-

MS&AD Loan Service Co., Ltd ("MS&AD Loan Services") provides guarantees mainly for the Company's housing loans that are executed to third party customers. Transaction amounts represent guaranteed amounts outstanding as of March 31, 2012.

Terms and conditions of transactions and the policy to determine the guarantee amount are as follows:

The Company predetermines the contract detail of each loan to be covered by the guarantee provided from MS&AD Loan Services Company, Limited and based on such information, the Company and MS&AD Loan Services have entered into a comprehensive guarantee agreement. MS&AD Loan Services provides guarantees based on the agreement.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

For the year ended March 31, 2013

Category	Company name	Voting rights (%)	Relationship	Transactions	Transaction amounts (Yen in millions)	Account	Balances (Yen in millions)
Affiliated companies	MS&AD Loan Services Company, Limited	Direct 12.6% Indirect 25.8%	Temporary transfer of director Credit guarantee related to consumer loans provided by the Company Administrative service related to housing loan guarantee insurance underwritten by the Company	Guarantee a debt related to transaction with third party	109,799	-	-

MS&AD Loan Service Co., Ltd ("MS&AD Loan Services") provides guarantees mainly for the Company's housing loans that are executed to third party customers. Transaction amounts represent guaranteed amounts outstanding as of March 31, 2013.

Terms and conditions of transactions and the policy to determine the guarantee amount are as follows:

The Company predetermines the contract detail of each loan to be covered by the guarantee provided from MS&AD Loan Services Company, Limited and based on such information, the Company and MS&AD Loan Services have entered into a comprehensive guarantee agreement. MS&AD Loan Services provides guarantees based on the agreement.

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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Changes in Net Assets

For the years ended March 31, 2012 and 2013

1. Type and number of treasury stocks

For the year ended March 31, 2012

Not applicable.

For the year ended March 31, 2013

Not applicable.

2. Information on type and total number of shares issued and dividend is not disclosed, as such information is included in Notes to Consolidated Statements of Changes in Net Assets in the consolidated financial statements of the Company.



**mitsui sumitomo insurance company, limited
and its consolidated subsidiaries**

Consolidated Financial Statements - March 31, 2012 and 2013

(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



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, 2012 and 2013, 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, 2012 and 2013, 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 20, 2013
Tokyo, Japan

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

As of March 31, 2012 and 2013

	2012	2013
	(Yen in millions)	
<u>Assets</u>		
Assets		
Cash, deposits and savings	¥ 448,826	364,202
Call loans	22,000	69,000
Receivables under resale agreements	41,680	48,545
Monetary claims bought	85,482	92,035
Money trusts	9,817	10,081
Investments in securities	3,769,220	4,168,404
Loans	624,376	573,049
Tangible fixed assets:		
Land	97,907	95,315
Buildings	145,963	138,916
Construction in progress	680	5,435
Other tangible fixed assets	<u>16,618</u>	<u>15,277</u>
Total tangible fixed assets	261,170	254,944
Intangible fixed assets:		
Software	10,787	10,693
Goodwill	52,633	52,915
Other intangible fixed assets	<u>14,354</u>	<u>35,430</u>
Total intangible fixed assets	77,775	99,039
Other assets	510,361	594,301
Deferred tax assets	87,002	5,422
Customers' liabilities under acceptances and guarantees	3,000	37,000
Bad debt reserve	<u>(6,620)</u>	<u>(6,930)</u>
 Total assets	 ¥ <u>5,934,096</u>	 <u>6,309,097</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets (Continued)

	2012	2013
	(Yen in millions)	
<u>Liabilities and Net Assets</u>		
Liabilities		
Policy liabilities:		
Outstanding claims	¥ 881,957	854,260
Underwriting reserves	<u>3,535,209</u>	<u>3,436,125</u>
Total policy liabilities	4,417,166	4,290,386
Bonds issued	271,165	241,176
Other liabilities	216,510	341,237
Reserve for pension and retirement benefits	84,500	88,094
Reserve for retirement benefits for officers	1,456	1,257
Accrued bonuses for employees	11,350	12,115
Reserves under the special laws:		
Reserve for price fluctuation	<u>2,639</u>	<u>5,151</u>
Total reserves under the special laws	2,639	5,151
Deferred tax liabilities	3,498	47,720
Acceptances and guarantees	<u>3,000</u>	<u>37,000</u>
Total liabilities	<u>5,011,288</u>	<u>5,064,139</u>
Net Assets		
Stockholders' equity:		
Common stock	¥ 139,595	139,595
Capital surplus	93,107	93,107
Retained earnings	<u>270,696</u>	<u>294,854</u>
Total stockholders' equity	503,399	527,558
Accumulated other comprehensive income:		
Net unrealized gains/(losses) on investments in securities	464,851	696,390
Net deferred gains/(losses) on hedges	16,384	26,428
Foreign currency translation adjustments	<u>(76,138)</u>	<u>(26,332)</u>
Total accumulated other comprehensive income	405,097	696,486
Minority interests	<u>14,310</u>	<u>20,913</u>
Total net assets	<u>922,807</u>	<u>1,244,958</u>
Total liabilities and net assets	¥ <u>5,934,096</u>	<u>6,309,097</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income

For the years ended March 31, 2012 and 2013

	2012	2013
	(Yen in millions)	
<u>Ordinary income and expenses</u>		
Ordinary income:		
Underwriting income:		
Net premiums written	¥ 1,425,176	1,479,560
Deposit premiums from policyholders	124,053	119,925
Investment income on deposit premiums from policyholders	47,434	44,061
Life insurance premiums	-	1,582
Reversal of outstanding claims	-	54,844
Reversal of underwriting reserves	276,562	111,774
Other underwriting income	3,184	12,916
Total underwriting income	1,876,411	1,824,666
Investment income:		
Interest and dividends income	111,339	108,749
Investment gains on money trusts	141	290
Gains on sales of securities	44,349	59,639
Gains on redemption of securities	589	1,225
Gains on derivative transactions	5,194	4,877
Other investment income	11,266	6,544
Transfer of investment income on deposit premiums from policyholders	(47,434)	(44,061)
Total investment income	125,447	137,265
Other ordinary income:		
Equity in earnings of affiliates	655	-
Other ordinary income	5,418	4,834
Total other ordinary income	6,074	4,834
Total ordinary income	2,007,933	1,966,766
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	1,099,742	977,795
Loss adjustment expenses	80,237	81,133
Commissions and collection expenses	241,929	249,207
Maturity refunds to policyholders	256,214	280,598
Dividends to policyholders	1,423	839
Life insurance claims	-	5
Provision for outstanding claims	132,429	-
Other underwriting expenses	1,787	2,155
Total underwriting expenses	1,813,764	1,591,733
Investment expenses:		
Investment losses on money trusts	18	48
Losses on sales of securities	24,918	4,275
Impairment losses on securities	3,126	21,772
Losses on redemption of securities	877	1,017
Other investment expenses	7,325	6,815
Total investment expenses	36,265	33,928

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income (Continued)

	2012	2013
	(Yen in millions)	
Operating expenses and general and administrative expenses	¥ 253,802	251,442
Other ordinary expenses:		
Interest expense	2,414	7,160
Provision for bad debts	-	429
Losses on bad debts	99	48
Losses on equity method investments	-	3,702
Other ordinary expenses	<u>3,501</u>	<u>2,144</u>
Total other ordinary expenses	<u>6,015</u>	<u>13,485</u>
Total ordinary expenses	<u>2,109,848</u>	<u>1,890,590</u>
Ordinary profit/(loss)	(101,915)	76,176
<u>Extraordinary income and losses</u>		
Extraordinary income:		
Gains on sales of fixed assets	747	1,939
Reversal of reserves under the special laws:		
Reversal of reserve for price fluctuation	<u>2,756</u>	-
Total reversal of reserves under the special laws	<u>2,756</u>	-
Other extraordinary income	<u>-</u>	<u>-</u>
Total extraordinary income	3,503	1,939
Extraordinary losses:		
Losses on sales of fixed assets	1,385	1,439
Impairment losses on fixed assets	3,141	355
Provision for reserves under the special laws:		
Provision for reserve for price fluctuation	<u>-</u>	<u>2,511</u>
Total provision for reserves under the special laws	<u>-</u>	<u>2,511</u>
Other extraordinary losses	<u>7,229</u>	<u>-</u>
Total extraordinary losses	<u>11,757</u>	<u>4,306</u>
Income/(loss) before income taxes and minority interests	(110,168)	73,809
Income taxes-current	6,914	5,290
Income taxes-deferred	<u>(3,270)</u>	<u>19,965</u>
Total income taxes	3,644	25,256
Income/(loss) before minority interests	<u>(113,812)</u>	<u>48,553</u>
Minority interests	<u>1,424</u>	<u>1,726</u>
Net income/(loss)	¥ <u>(115,237)</u>	<u>46,826</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2012 and 2013

	2012	2013
	(Yen in millions)	
Income/(loss) before minority interests	¥ (113,812)	48,553
Other comprehensive income/(loss):		
Net unrealized gains/(losses) on investments in securities	25,100	230,970
Net deferred gains/(losses) on hedges	10,150	10,044
Foreign currency translation adjustments	(11,977)	46,072
Share of other comprehensive income/(loss) of equity method investments	<u>(3,766)</u>	<u>4,581</u>
Total other comprehensive income/(loss)	<u>19,506</u>	<u>291,668</u>
Total comprehensive income/(loss)	¥ <u>(94,306)</u>	<u>340,221</u>
Allocation:		
Comprehensive income/(loss) attributable to shareholders of the parent	¥ (94,725)	336,656
Comprehensive income/(loss) attributable to minority interests	419	3,564

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2012 and 2013

	2012	2013
	(Yen in millions)	
Stockholders' equity:		
Common stock:		
Beginning balance	¥ <u>139,595</u>	<u>139,595</u>
Ending balance	<u>139,595</u>	<u>139,595</u>
Capital surplus:		
Beginning balance	<u>93,107</u>	<u>93,107</u>
Ending balance	<u>93,107</u>	<u>93,107</u>
Retained earnings:		
Beginning balance	402,749	270,696
Changes for the year:		
Dividends paid	(16,818)	(22,397)
Changes in the scope of consolidation	-	(270)
Increase due to merger of subsidiaries	2	-
Net income/(loss)	<u>(115,237)</u>	<u>46,826</u>
Total changes for the year	<u>(132,053)</u>	<u>24,158</u>
Ending balance	<u>270,696</u>	<u>294,854</u>
Total stockholders' equity:		
Beginning balance	635,452	503,399
Changes for the year:		
Dividends paid	(16,818)	(22,397)
Changes in the scope of consolidation	-	(270)
Increase due to merger of subsidiaries	2	-
Net income/(loss)	<u>(115,237)</u>	<u>46,826</u>
Total changes for the year	<u>(132,053)</u>	<u>24,158</u>
Ending balance	<u>503,399</u>	<u>527,558</u>
Accumulated other comprehensive income:		
Net unrealized gains/(losses) on investments in securities:		
Beginning balance	439,903	464,851
Changes for the year:		
Net changes of items other than stockholders' equity	<u>24,947</u>	<u>231,538</u>
Total changes for the year	<u>24,947</u>	<u>231,538</u>
Ending balance	<u>464,851</u>	<u>696,390</u>
Net deferred gains/(losses) on hedges:		
Beginning balance	6,234	16,384
Changes for the year:		
Net changes of items other than stockholders' equity	<u>10,150</u>	<u>10,044</u>
Total changes for the year	<u>10,150</u>	<u>10,044</u>
Ending balance	<u>16,384</u>	<u>26,428</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Changes in Net Assets (Continued)

	2012	2013
	(Yen in millions)	
Foreign currency translation adjustments:		
Beginning balance	¥ (61,551)	(76,138)
Changes for the year:		
Net changes of items other than stockholders' equity	<u>(14,586)</u>	<u>49,806</u>
Total changes for the year	<u>(14,586)</u>	<u>49,806</u>
Ending balance	<u>(76,138)</u>	<u>(26,332)</u>
Total accumulated other comprehensive income:		
Beginning balance	384,586	405,097
Changes for the year:		
Net changes of items other than stockholders' equity	<u>20,511</u>	<u>291,389</u>
Total changes for the year	<u>20,511</u>	<u>291,389</u>
Ending balance	<u>405,097</u>	<u>696,486</u>
Minority interests:		
Beginning balance	14,679	14,310
Changes for the year:		
Net changes of items other than stockholders' equity	<u>(369)</u>	<u>6,602</u>
Total changes for the year	<u>(369)</u>	<u>6,602</u>
Ending balance	<u>14,310</u>	<u>20,913</u>
Total net assets:		
Beginning balance	1,034,719	922,807
Changes for the year:		
Dividends paid	(16,818)	(22,397)
Changes in the scope of consolidation	-	(270)
Increase due to merger of subsidiaries	2	-
Net income/(loss)	(115,237)	46,826
Net changes of items other than stockholders' equity	<u>20,142</u>	<u>297,991</u>
Total changes for the year	<u>(111,911)</u>	<u>322,150</u>
Ending balance	¥ <u>922,807</u>	<u>1,244,958</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended March 31, 2012 and 2013

	2012	2013
	(Yen in millions)	
I. Cash flows from operating activities:		
Income/(loss) before income taxes and minority interests	¥ (110,168)	73,809
Adjustments for:		
Depreciation	19,273	22,234
Impairment losses on fixed assets	3,141	355
Amortization of goodwill	3,789	3,820
Increase/(decrease) in outstanding claims	131,803	(56,148)
Increase/(decrease) in underwriting reserves	(276,583)	(112,312)
Increase/(decrease) in bad debt reserve	(1,081)	153
Increase/(decrease) in reserve for pension and retirement benefits	4,424	3,508
Increase/(decrease) in reserve for retirement benefits for officers	(240)	(198)
Increase/(decrease) in accrued bonuses for employees	(507)	546
Increase/(decrease) in reserve for price fluctuation	(2,756)	2,511
Interest and dividends income	(111,339)	(108,749)
Investment related losses/(gains)	(16,017)	(33,800)
Derivative transactions related losses/(gains)	(5,194)	(4,877)
Interest expense	2,414	7,160
Foreign exchange losses/(gains)	(14,653)	(4,859)
Losses/(gains) on disposal of tangible fixed assets	647	(502)
Losses/(gains) on equity method investments	(655)	3,702
Decrease/(increase) in other assets	(51,441)	(53,371)
Increase/(decrease) in other liabilities	34,489	62,224
Other, net	<u>16,378</u>	<u>6,101</u>
Subtotal	(374,277)	(188,690)
Interest and dividends received	109,006	104,330
Interest paid	(2,179)	(7,253)
Income taxes refunded/(paid)	<u>(554)</u>	<u>(5,586)</u>
Net cash provided by/(used in) operating activities (a)	(268,005)	(97,200)

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

	2012	2013
	(Yen in millions)	
II. Cash flows from investing activities:		
Net decrease/(increase) in deposits and savings	¥ (24,563)	(9,225)
Purchase of monetary claims	-	(9,494)
Proceeds from sales and redemption of monetary claims bought	5,950	14,366
Purchase of money trusts	(1,525)	(13)
Proceeds from sales of money trusts	1,500	-
Purchase of securities	(670,998)	(702,806)
Proceeds from sales and redemption of securities	937,778	716,798
Investment in loans	(124,163)	(116,167)
Collection of loans	186,365	167,467
Net increase/(decrease) in cash collateral for securities borrowing and lending transactions	(26,261)	-
Other, net	4,546	3,551
Subtotal (b)	<u>288,627</u>	<u>64,475</u>
(a + b)	<u>20,622</u>	<u>(32,724)</u>
Acquisition of tangible fixed assets	(33,773)	(15,621)
Proceeds from sales of tangible fixed assets	1,914	6,344
Acquisition of intangible fixed assets	(14,852)	(24,869)
Other, net	(624)	(763)
Net cash provided by/(used in) investing activities	241,291	29,565
III. Cash flows from financing activities:		
Proceeds from borrowings	-	50,000
Issuance of bonds	104,601	-
Redemption of bonds	-	(30,000)
Dividends paid to minority shareholders	(788)	(825)
Other, net	(1,197)	(1,260)
Net cash provided by/(used in) financing activities	102,614	17,913
IV. Effect of exchange rate changes on cash and cash equivalents	<u>10,320</u>	<u>15,654</u>
V. Net increase/(decrease) in cash and cash equivalents	<u>86,222</u>	<u>(34,066)</u>
VI. Cash and cash equivalents at the beginning of the year	<u>372,047</u>	<u>458,269</u>
VII. Increase in cash and cash equivalents resulting from newly consolidated subsidiaries	-	1,865
VIII. Cash and cash equivalents at the end of the year	¥ <u>458,269</u>	<u>426,068</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies

For the years ended March 31, 2012 and 2013

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. In preparing the accompanying consolidated financial statements, certain additional information has been provided to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan.

The accompanying consolidated financial statements are expressed in yen. As permitted by the regulations under the Corporate Accounting Regulations, amounts are rounded down to the nearest million of yen, except for those stated otherwise. As a result, the totals shown in the accompanying consolidated financial statements in yen do not necessarily agree with the sums of the individual amounts.

2. Scope of consolidation

(1) Number of consolidated subsidiaries

35 companies

Major consolidated subsidiaries are as follows:

MSIG Holdings (Americas), Inc.
Mitsui Sumitomo Insurance (London Management) Ltd.
MSIG Insurance (Malaysia) Bhd.

Changes in the scope of consolidation

During the year ended March 31, 2013, MSIG Insurance Europe AG and Aioi Nissay Dowa Insurance Company of America have been included in the scope of consolidation due to the commencement of business and the acquisition of shares respectively.

(2) Unconsolidated subsidiaries

Major unconsolidated subsidiary is as follows:

MITSUI SUMITOMO INSURANCE Claims Adjusting Company, Limited

The above subsidiary and other subsidiaries are not consolidated, as they are not considered to affect, in all material aspects, the consolidated financial conditions and results of operation, in view of the size of their total assets, ordinary income, net income and retained earnings attributable to the Company.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

3. Application of equity method

- (1) Number of affiliated companies accounted for under the equity method
6 companies

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

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

Changes in the scope of application of equity method

Max Life Insurance Company Limited became an equity method affiliate during the year ended March 31, 2013 due to the acquisition of its shares by the Company.

- (2) Other affiliated companies, including unconsolidated subsidiaries (e.g. MITSUI SUMITOMO INSURANCE Claims Adjusting Company, Limited, and Cholamandalam MS General Insurance Company Limited), are stated at cost as their effects on consolidated net income and retained earnings are not considered material, individually and in aggregate.

4. The fiscal year of consolidated subsidiaries

The fiscal year end of consolidated subsidiaries, MSIG Holdings (Americas), Inc. and 33 other companies, is December 31 which is different from that of the Company. The Company uses their financial statements as of their latest fiscal year end for consolidation purposes because the intervening period does not exceed three months.

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 (including those recorded as Cash, deposits and savings, and Monetary claims bought, as set forth by the Enforcement Regulations of the Japanese Insurance Business Law)

(i) Held-to-maturity securities are valued at amortized cost.

(ii) Investments in unconsolidated subsidiaries and affiliated companies 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 those of which fair value is not practically determinable) are valued at their year-end market prices.

Net unrealized gains and losses are reported as a separate line item of net assets, and cost of sales is calculated by the moving average method.

(iv) Available-for-sale securities for those of which fair value is not practically determinable are valued at cost determined by the moving average method.

(v) Money trusts which hold investment securities and are specifically managed for the

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

Company are valued at their year-end market prices.

(2) Valuation policies and methods of derivative financial instruments

All derivative financial instruments, except for those which qualify for hedge accounting, are recognized at fair value and subsequent changes in their fair value are recognized in earnings when incurred.

(3) Depreciation methods of significant assets

- (i) Depreciation of tangible fixed assets held by the Company and the 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.

(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates)

In accordance with the amendment of the Corporation Tax Law, effective from April 1, 2012, the Company has changed the depreciation method for tangible fixed assets acquired on or after April 1, 2012. The effects of this change were to increase Ordinary profit and Net income before income taxes and minority interests by ¥259 million.

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

(4) Accounting policies for significant reserves

(i) Bad debt reserve

As for the Company, bad debt reserve is established under the internal standard for self-assessment of assets and the policy for write-off and provision. Bad debt reserve for loans to debtors who are legally deemed to be insolvent due to bankruptcy or special liquidation, or whose notes are under suspension at clearing houses, and loans to debtors who are deemed to be substantially insolvent is provided based on the amount remaining after deducting the resale value of collateral and the amount collectible through guarantees. Bad debt reserve for loans to debtors who are likely to become insolvent in the future is provided based on the balance remaining after deducting the resale value of collateral, the amount collectible through guarantees and the amount expected to be repaid by the debtor in consideration of the debtor's solvency.

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

Bad debt reserve for all loans and receivables is provided based on the assessment under the internal standard for self-assessment of assets. The assessment is performed by the departments which are responsible for respective assets. The independent internal audit departments review those results.

As for domestic consolidated subsidiaries, bad debt reserve is established under their

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

internal standards for self-assessment of assets and policies for write-off and provision similar to those of the Company.

As for foreign consolidated subsidiaries, bad debt reserve is established based on the assessment of collectability 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 end of the year.

Unrecognized prior service costs are amortized using the straight-line method over a certain number of years that does not exceed the average remaining work period of employees at the time of occurrence.

Unrecognized actuarial gains and losses are amortized, commencing from the following year, using the straight-line method over a certain number of years that does not exceed the average remaining work period of employees at the time of occurrence.

In estimating retirement benefit obligations, some consolidated subsidiaries use the simplified method. Under the simplified method, retirement benefit obligations are estimated at an amount which would be payable if all employees were to voluntarily leave the company as of the year-end.

(iii) Reserve for retirement benefits for officers

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

(iv) Accrued bonuses for employees

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

(v) Reserve for price fluctuation

As for the Company, reserve for price fluctuation is recognized under Article 115 of the Insurance Business Law to provide for possible losses arising from price fluctuation of investments in securities.

(5) Translation of foreign currency assets and liabilities

All assets and liabilities denominated in foreign currencies of the Company are translated into Japanese yen using the spot exchange rate prevailing at the year-end. The foreign exchange gains and losses resulting from the translation are recognized in earnings.

Foreign currency assets and liabilities of consolidated foreign subsidiaries are translated into Japanese yen using the spot exchange rate prevailing at their respective year-ends, while

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

stockholders' equity is translated at the historical rates. Income and expenses of consolidated foreign subsidiaries are translated into Japanese yen using the average exchange rate for the year. Differences arising from such translation are included in Foreign currency translation adjustments and Minority interests.

(6) Accounting for consumption taxes

Consumption taxes received or paid by the Company and its domestic consolidated subsidiaries are not included in income and expenses, except for those relating to Loss adjustment expenses, Operating expenses and general and administrative expenses incurred by the Company. Consumption taxes excluded from income and expense are recorded at the net amount on the balance sheet. Non-deductible consumption taxes are recognized as expense for the period, except for those relating to purchase of depreciable fixed assets which are not charged to expense but deferred as Other assets and amortized over a period of five years on a straight-line basis.

(7) Hedge accounting

Under accounting principles generally accepted in Japan ("Japanese GAAP"), several hedge accounting models are allowed. Two fundamental approaches are the deferred hedge method and the fair value hedge method. Under the deferred hedge method, gains and losses that resulted from changes in the fair value of derivative financial instruments are deferred and accounted for as a separate line item of net assets. Under the fair value hedge method, which is allowed only with respect to available-for-sale securities being the hedged item, gains and losses on changes in fair value of the hedging instrument, are recognized in earnings together with the corresponding gains or losses of the hedged item attributable to the risk being hedged.

In addition, for certain derivative instruments, exceptional treatments are permitted under Japanese GAAP. Assets and liabilities denominated in foreign currencies and hedged by foreign exchange forward contracts can be translated at the foreign exchange rate stipulated in the forward contracts. The foreign exchange forward contracts used as hedging instruments are not measured at fair value either at the initial recognition or subsequent reporting dates (the allocation method). Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at fair value, but the differentials paid or received under the swap agreements are recognized and included in interest expense or income of hedged items (the exceptional method).

As for the Company, gains and losses on equity forward contracts used for hedging risks of variability in fair value of investments in equity securities are accounted for under the deferred hedge method. Gains and losses on currency swap contracts and forward exchange contracts used for hedging foreign currency risks are accounted for under either the deferred hedge method, the fair value hedge method or the allocation method. Interest rate swap contracts for hedging risks of variability in cash flows of Loans, Bonds, or Borrowings arising from fluctuations in interest rates are accounted for using the deferred hedge method or the exceptional method when they meet certain criteria.

Hedge effectiveness is assessed quarterly by comparing cumulative fluctuations of fair value or cash flows of hedged items and hedging instruments during the periods from the respective start dates of the hedges to the assessment dates. When the hedged item and the hedging instruments are highly and clearly interrelated or when an interest rate swap transaction meets the criteria

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

for applying the exceptional method, hedge effectiveness is not assessed.

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 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 of interest rate swaps for the ALM is evaluated on a portfolio basis, based on whether upward and downward movements in value of the hedged item and the hedging instrument offset each other within certain range, respective to changes in the interest rate.

6. Goodwill

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. Cash and cash equivalents on the Consolidated Statements of Cash Flows

In preparing the Consolidated Statement of Cash Flows, cash on hand, readily available deposits and short-term highly liquid investments with original maturities not exceeding three months constitute cash and cash equivalents.

(Change in presentation)

Consolidated Statements of Cash Flows

Previously, Income taxes paid and Refund of income taxes were presented as separate line items under Cash flows from operating activities. Starting from the year ended March 31, 2013, due to a decrease in the amount of refund of income taxes, these items are presented in a single line of Income taxes refunded/(paid). The amounts for the year ended March 31, 2012 have been reclassified to conform with the new presentation for the year ended March 31, 2013. Accordingly, Income taxes paid (¥8,292 million) and Refund of income taxes (¥7,737 million) under Cash flows from operating activities in the Consolidated Statement of Cash Flows for the year ended March 31, 2012 are presented as Income taxes refunded/(paid) ((¥554) million).

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets

As of March 31, 2012 and 2013

1. The amounts of accumulated depreciation and accelerated depreciation of tangible fixed assets are as follows:

	(Yen in millions)	
	March 31, 2012	March 31, 2013
Accumulated depreciation	290,415	285,088
Accelerated depreciation	16,471	15,610

(Note) As permitted under Japanese tax legislation for the purpose of deferral in recognizing taxable income, acquisition cost of certain qualifying properties is reduced to offset the taxable income that resulted from sales of assets to be replaced by the acquired asset or receipt of governmental subsidies provided for the acquisition of the new asset. The total amounts deducted from the original acquisition cost of the qualifying properties held by the Company as of March 31, 2012 and 2013 were ¥16,471 million and ¥15,610 million, respectively.

2. The carrying amounts of equity investments in unconsolidated subsidiaries and affiliated companies are as follows:

	(Yen in millions)	
	March 31, 2012	March 31, 2013
Investments in securities (Domestic stocks)	10,865	11,284
Investments in securities (Foreign securities)	93,036	143,860
Investments in securities (Other securities)	6,689	7,892
Total	110,590	163,038

3. The amounts of loans to borrowers in bankruptcy, overdue loans, loans overdue for 3 months or more and restructured loans are as follows:

	(Yen in millions)	
	March 31, 2012	March 31, 2013
Loans to borrowers in bankruptcy	199	139
Overdue loans	2,172	2,242
Loans overdue for 3 months or more	890	785
Restructured loans	1,394	3,031
Total	4,656	6,199

(Note) Loans to borrowers in bankruptcy represent those, excluding any part of bad debt that has been written off, on which accrued interest receivable is not recognized because repayments of principal or interest have been 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 or 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 borrowers in bankruptcy and (b) loans that have been granted grace for interest payments in

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

order to assist debtor's operational restructuring or financial recovery.

Loans overdue for 3 months or more represent those of which principal or interest has been past due for 3 months or more after the contractual due date for repayment of principal or interest. The loans to borrowers in bankruptcy and overdue loans are excluded from this category.

Restructured loans are those 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 or support to the debtors in financial difficulty. The loans to borrowers in bankruptcy, overdue loans and loans overdue for 3 months or more are excluded from this category.

4. The amounts of pledged assets are as follows:

	(Yen in millions)	
	March 31, 2012	March 31, 2013
Investments in securities	111,390	111,894
Cash, deposits and savings	1,849	4,321
Tangible fixed assets	214	245
Total	113,453	116,461

(Note) The above amounts primarily consist of collateral assets required for overseas operations and for Real Time Gross Settlement of the current account with the Bank of Japan.

5. The amounts of investments in securities loaned under securities lending agreements are as follows:

	(Yen in millions)	
	March 31, 2012	March 31, 2013
	28,825	27,914

6. Among assets received under resale agreements, the amounts of those which the Company has the right to sell or pledge are as follows:

	(Yen in millions)	
	March 31, 2012	March 31, 2013
Commercial papers	1,999	12,098
Securities	689	449
Total	2,689	12,548

(Note) Commercial papers and Securities are all held by the Company.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

7. Retirement benefits

(1) Details of retirement benefit obligations

(Yen in millions)

	March 31, 2012	March 31, 2013
(i) Retirement benefit obligations	(279,686)	(283,017)
(ii) Plan assets	166,902	182,839
(iii) Unfunded retirement benefit obligations (i + ii)	(112,784)	(100,177)
(iv) Unrecognized actuarial losses/(gains)	28,387	12,471
(v) Net carrying amount on the balance sheet (iii + iv)	(84,396)	(87,706)
(vi) Prepaid pension expenses	103	387
(vii) Reserve for pension and retirement benefits (v - vi)	(84,500)	(88,094)

(Note) Some of the consolidated subsidiaries use the simplified method in calculating retirement benefit obligations.

(2) Actuarial assumptions for calculation of retirement benefit obligations

(i) Attribution method of retirement benefits over service period
The benefit/years of service method

(ii) Discount rate

March 31, 2012	March 31, 2013
Mainly 2.00 %	Mainly 2.00 %

(iii) Expected rate of return on plan assets

March 31, 2012	March 31, 2013
Mainly 3.00%	Mainly 3.00%

(iv) Amortization period for unrecognized prior service costs

March 31, 2012	March 31, 2013
4 years	4 years

(Note) Unrecognized prior service costs are amortized using the straight-line method over a certain number of years that does not exceed the average remaining work period of employees at the time of occurrence.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

- (v) Amortization period for unrecognized actuarial gains and losses

March 31, 2012	March 31, 2013
Mainly 10 years	Mainly 10 years

(Note) Unrecognized actuarial gains and losses are amortized, commencing from the following year, using the straight-line method over a certain number of years that does not exceed the average remaining work period of employees at the time of occurrence.

8. Guarantees to transactions of a limited partnership entity

As of March 31, 2012

The Company provides guarantees to transactions of a limited partnership entity. Aggregate net present value of those transactions was ¥182,250 million, in a negative liability position as of March 31, 2012. This amount was not included in Customers' liabilities under acceptances and guarantees or Acceptances and guarantees since there is no substantial exposure.

As of March 31, 2013

The Company provides guarantees to transactions of a limited partnership entity. Aggregate net present value of those transactions was ¥192,440 million, in a negative liability position as of March 31, 2013. This amount was not included in Customers' liabilities under acceptances and guarantees or Acceptances and guarantees since there is no substantial exposure.

9. Guarantees and similar arrangements for consolidated subsidiaries and affiliated companies

As of March 31, 2012

The Company executes a net worth maintenance agreement with Mitsui Sumitomo Primary Life Insurance Company, Limited ("MSPL"), 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. Under the agreement with MSPL, the Company and MS & AD Insurance Group Holdings, Inc. are jointly liable for the obligation. The aggregate amounts of liabilities and assets of MSPL as of March 31, 2012 were ¥3,094,092 million (including policy liabilities 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.

As of March 31, 2013

The Company executes a net worth maintenance agreement with Mitsui Sumitomo Primary Life Insurance Company, Limited ("MSPL"), 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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

or it does not maintain adequate liquidity for payment for its obligations. Under the agreement with MSPL, the Company and MS & AD Insurance Group Holdings, Inc. are jointly liable for the obligation. The aggregate amounts of liabilities and assets of MSPL as of March 31, 2013 were ¥3,694,290 million (including policy liabilities in the amount of ¥3,645,909 million) and ¥3,765,574 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, 2013.

10. The amounts of the unutilized portion of commitment lines given to third parties are as follows:

(Yen in millions)	
March 31, 2012	March 31, 2013
1,349	648

11. Information on financial instruments

(1) Qualitative information on financial instruments

(i) Policy on financial instruments

The Company and its subsidiaries (hereinafter referred to as "the Group") make investments in financial instruments to maximize net asset value sustainably under the appropriate risk management while maintaining adequate liquidity of assets. In order to provide for payment of the insurance liabilities such as claims, maturity-refunds and cash surrender values, the Group applies Asset and Liability Management (ALM) reflecting characteristics of the insurance liabilities and ensures soundness of assets and investment returns by enhancing risk management techniques.

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 and strengthen the financial base under such changing environments, the Group raises funds through issuance of long-term or short-term corporate bonds or other financing methods as needs arise.

(ii) Details of financial instruments and associated risks

The Group's financial assets mainly consist of domestic and foreign securities including bonds and stocks 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 of interest rates, stock prices, foreign exchange rates and other market indicators. Credit risks arise from deterioration in the financial condition of security issuers and counterparties of loans. Market liquidity risks refer to such situation as being forced to execute transactions at extremely unfavorable prices under turmoil of the markets.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

The Company utilizes derivative transactions represented by interest rate swaps, currency swaps, forward exchange contracts and currency options for the purpose of hedging risks such as fluctuations of interest rates and foreign exchange rates. 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 utilize forward exchange contracts and other instruments for the purpose of hedging market risks such as fluctuations of interest rates and foreign exchange rates.

For derivative transactions to which hedge accounting is applied, please refer to "Significant Accounting Policies, 5. Accounting policies-(7) Hedge accounting".

In general, derivative transactions involve risks of fluctuations in fair value of derivative financial instruments, risks of nonperformance as a result of insolvency of the counterparty, and market liquidity risks. Derivative transactions utilized by the Company are also exposed to these risks. However, market risks associated with derivative transactions are mitigated, as the fair value of hedged items and hedging instruments fluctuate oppositely. In order to mitigate credit risks arising from nonperformance of counterparties, derivative financial instruments are utilized only with selected counterparties with high credit quality, transactions are diversified across them, and the Group enters into master netting agreements with the counterparties.

(iii) Risk management structure relating to financial instruments

Financial instruments are traded and managed based on rules for authorization of transaction and risk management established by the Group.

At the Company, the back-office and risk management office operate independently from the trading department, in order to monitor whether investment activities, 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 existing assets to 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.

a. Market risk management

The Group considers characteristics of each financial instrument in accordance with rules to enhance its market risk management. At the Company, the trading department and the risk management department establish rules that clarify operating procedures in each investment segment, and control market risks by setting position limits and loss cut threshold based on risk characteristics.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

b. Credit risk management

The Group manages credit risks in accordance with internally established rules and processes.

For loans of the Company, the trading department and the risk management department maintain the credit risk management structure through credit screening, credit limit, credit information management, internal credit rating, requiring collateral and guarantees, dealing with delinquent loans.

For securities and derivatives, the trading department and the risk management department manage credit risk of security issuers and derivative counterparties by regularly monitoring credit information and fair values associated with the products.

c. Funding liquidity risk management

The Group conducts treasury management of cash position, with consideration given to liquidity. The Group manages funding liquidity risks by diversifying its fundraising methods, holding a sufficient amount of cash, savings and deposits and highly liquid securities such as government bonds and regularly monitoring their aggregate amounts, in order to secure and maintain adequate funding in case of unexpected events like catastrophe and deterioration of funding liquidity arising from turmoil in the financial markets.

(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 estimates 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) Supplementary information on fair value of financial instruments

The following table summarizes the carrying amount on the consolidated balance sheet and the fair value of financial instruments as of March 31, 2012 and 2013 together with their differences. Note that the following table does not include certain financial instruments whose fair value is not practically determinable (see Note 2).

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

(Yen in millions)

March 31, 2012	Carrying amount	Fair value	Difference
(i) Cash, deposits and 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
Bonds issued	271,165	274,480	3,314
Total liabilities	271,165	274,480	3,314
Derivative transaction (*2)			
Hedge accounting not applied	(4,114)	(4,114)	-
Hedge accounting applied	24,222	24,222	-
Total derivative transaction	20,107	20,107	-

(Yen in millions)

March 31, 2013	Carrying amount	Fair value	Difference
(i) Cash, deposits and savings	364,202	364,228	25
(ii) Call loans	69,000	69,000	-
(iii) Receivables under resale agreements	48,545	48,545	-
(iv) Monetary claims bought	92,035	92,035	-
(v) Money trusts	10,081	10,081	-
(vi) Investments in securities			
Available-for-sale securities	3,890,669	3,890,669	-
(vii) Loans	573,049		
Bad debt reserve (*1)	(2,614)		
	570,434	584,459	14,024
Total assets	5,044,969	5,059,019	14,049
Bonds issued	241,176	250,630	9,454
Total liabilities	241,176	250,630	9,454
Derivative transaction (*2)			
Hedge accounting not applied	(1,779)	(1,779)	-
Hedge accounting applied	38,813	38,813	-
Total derivative transaction	37,033	37,033	-

(*1) Bad debt reserve for loans is deducted from the carrying amount.

(*2) Derivative assets and liabilities included in other assets and other liabilities are presented on a net basis. Debits and credits arising from derivative transactions are netted, and net credit position is shown in parenthesis.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

(Note 1) Determination of fair value of financial instruments

Assets

(i) Cash, deposits and savings

With regard to Deposits and savings, fair value is measured as the present value of future estimated cash flows for each category of deposits and savings based on duration of the assets, discounted at interest rates applicable to the same type of new deposits and savings. With regard to deposits and savings without maturity and short-term deposits and 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 approximates the fair value since they are scheduled to be settled in a short period of time.

(iii) Receivables under resale agreements

With regard to Receivables under resale agreements, the book value approximates the fair value since they are scheduled to be settled in a short period of time.

(iv) Monetary claims bought

With regard to Commercial papers (CP), the book value approximates the fair value since they are scheduled to be settled in a short period of time. With regard to Monetary claims bought other than CP, the price quoted by the counterparty financial institutions is deemed as the fair value.

(v) Money trusts

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

(vi) 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.

(vii) Loans

With regard to floating rate loans, the book value approximates the fair value so long as no significant changes in the credit condition of the debtor arise, because the market rate is timely reflected in the floating rate of the loans. With respect to fixed rate loans, for each class of loans sorted by type, term and credit rating, the fair value is calculated based on the present value of estimated future cash flows, discounted at the appropriate risk free rate such as the yield of government bonds with a credit spread added on. The fair value of some personal loans is determined at the net present value of estimated future cash flows,

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

discounted at interest rates applicable to the same type of new loans. With regard to policy loans which do not have contractual maturity as the loan amount is limited within the surrender value, the carrying amount approximates the fair value, considering their estimated repayment period and interest rate.

For loans to debtors that are legally or substantially bankrupt and doubtful debtors, the carrying amount less bad debt reserve is deemed as the fair value, because bad debt reserve is determined individually by discounting the estimated future cash flows or based on appraisal value of underlying collateral where appropriate.

Liabilities

Bonds issued

With regard to Bonds issued, "Reference prices for Over-the-Counter bond transactions" published by Japan Securities Dealers Association 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 published forward exchange rates, the closing price at major exchange, the price indicated by the financial institutions, or option pricing model.

(Note 2) Financial instruments whose fair value is not practically determinable are not included in "(vi) Investments in securities", and the balance sheet amounts of those are as follows:

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

	(Yen in millions)	
	March 31, 2012	March 31, 2013
Unlisted stocks and other assets invested in unconsolidated subsidiaries and affiliated companies (*1)	110,590	163,038
Other unlisted stocks (*1)	64,544	63,707
Partnership investment comprised of unlisted stocks (*1)	49,295	50,988
Others (*2)	0	0
Total	224,430	277,734

(*1) Unlisted stocks and Partnership investments comprised of unlisted stocks are not included in "(vi) Investments in securities" because the fair value cannot be determined as they have no quoted market price.

(*2) Others are not included in "(vi) Investments in securities". They represent corporate bonds whose fair value cannot be determined because those issuers are in bankruptcy, or their future cash flows cannot be estimated.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

12. The Company and certain consolidated subsidiaries own investment properties in Tokyo and other areas. The carrying amounts, changes in carrying amounts and fair value of the investment properties are as follows:

	(Yen in millions)	
	March 31, 2012	March 31, 2013
Carrying amount	39,547	37,473
Fair value	95,978	91,164

(Notes)

1. Carrying amount represents the cost of acquisition less accumulated depreciation.
2. Fair value is primarily based on appraisals by qualified external appraisers. With respect to the properties with no substantial changes in their appraisal values or indices reflecting the market prices appropriately since the most recent appraisals, fair value is determined based on these appraisal values or the values adjusted by these indices.

13. The amounts of net assets per share are as follows:

	March 31, 2012	March 31, 2013
Net assets per share (in Yen)	646.89	871.57
Minority interests deducted from net assets (Yen in millions)	14,310	20,913
Outstanding common shares (in thousands of shares)	1,404,402	1,404,402

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Income

For the years ended March 31, 2012 and 2013

1. Major components of business expenses are as follows:

	(Yen in millions)	
	For the year ended March 31, 2012	For the year ended March 31, 2013
Commission expenses	251,077	261,150
Salary	126,829	128,211

(Note) 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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Income (Continued)

2. Impairment losses on fixed assets were recognized as follows:

For the year ended March 31, 2012

(Yen in millions)

Use	Asset category	Description of assets	Impairment losses on fixed assets	Breakdown	
Investment properties	Buildings	A building for rent in Aomori	384	Buildings	384
Idle real estate and real estate for sale	Land and buildings	8 properties, including company residences in Tokyo	2,756	Land	36
				Buildings	2,719

Fixed assets used for insurance business operations are grouped as a single asset group. Other assets such as Investment properties, idle assets and assets for sale are grouped on an individual basis.

Fixed assets are reviewed for impairment whenever events or change in circumstances, such as a significant decline in the value of an asset (asset group) or change in the intended use of the asset, indicate that the carrying amount of the asset (asset group) may not be recoverable. An impairment loss is measured at the amount by which the carrying amount of the asset (asset group) exceeds its recoverable amount, which is the higher of 1) the sum of discounted cash flows from the continued use and eventual disposition of the asset (asset group) or 2) the net sales value at disposition.

The carrying amounts of the above investment properties and idle properties have been reduced to their recoverable amounts. The aggregate amount of ¥3,141 million in 2012 was recorded in Impairment losses on fixed assets under Extraordinary losses.

The recoverable amounts of these assets represent their net sales value, which were determined based on the appraisal values provided by independent appraisers.

For the year ended March 31, 2013

(Yen in millions)

Use	Asset category	Description of assets	Impairment losses on fixed assets	Breakdown	
Investment properties	Buildings	2 properties, including buildings for rent in Aichi	170	Buildings	170
Idle real estate and real estate for sale	Land and buildings	4 properties, including office buildings in Gifu	185	Land	84
				Buildings	100

Fixed assets used for insurance business operations are grouped as a single asset group. Other assets such as Investment properties, idle assets and assets for sale are grouped on an

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Income (Continued)

individual basis.

Fixed assets are reviewed for impairment whenever events or change in circumstances, such as a significant decline in the value of an asset (asset group) or change in the intended use of the asset, indicate that the carrying amount of the asset (asset group) may not be recoverable. An impairment loss is measured at the amount by which the carrying amount of the asset (asset group) exceeds its recoverable amount, which is the higher of 1) the sum of discounted cash flows from the continued use and eventual disposition of the asset (asset group) or 2) the net sales value at disposition.

The carrying amounts of the above investment properties and idle properties have been reduced to their recoverable amounts. The aggregate amount of ¥355 million in 2013 was recorded in Impairment losses on fixed assets under Extraordinary losses.

The recoverable amounts of these assets represent their net sales value, which were determined based on the appraisal values provided by independent appraisers.

3. Major components of other extraordinary losses are as follows:

For the year ended March 31, 2012

Other extraordinary losses include reversal of foreign currency translation adjustments (¥7,229 million).

4. The amounts of net income/(loss) per share are as follows:

	For the year ended March 31, 2012	For the year ended March 31, 2013
Net income/(loss) per share (in Yen)	(82.05)	33.34
Net income/(loss) attributable to common shares (Yen in millions)	(115,237)	46,826
Average outstanding common shares during the year (in thousands of shares)	1,404,402	1,404,402

(Notes)

1. Since net loss was recognized and there was no potential dilution for the year ended March 31, 2012, diluted net income/(loss) per share is not disclosed.
2. Since there was no potential dilution for the year ended March 31, 2013, diluted net income/(loss) per share is not disclosed.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statement of Comprehensive Income

For the years ended March 31, 2012 and 2013

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

	2012	2013
	(Yen in millions)	
Net unrealized gains/(losses) on investments in securities:		
Gains/(losses) arising during the period	4,348	375,654
Reclassification adjustments	<u>(18,409)</u>	<u>(42,654)</u>
Before income tax effect adjustment	(14,060)	333,000
Income tax effects	<u>39,161</u>	<u>(102,030)</u>
Net unrealized gains/(losses) on investments in securities	<u>25,100</u>	<u>230,970</u>
Net deferred gains/(losses) on hedges:		
Gains/(losses) arising during the period	14,442	19,654
Reclassification adjustments	<u>(288)</u>	<u>(5,168)</u>
Before income tax effect adjustments	14,154	14,485
Income tax effects	<u>(4,004)</u>	<u>(4,441)</u>
Net deferred gains/(losses) on hedges	<u>10,150</u>	<u>10,044</u>
Net foreign currency translation adjustments:		
Gains/(losses) arising during the period	(18,656)	45,237
Reclassification adjustments	<u>6,678</u>	<u>835</u>
Before income tax effect adjustment	(11,977)	46,072
Income tax effects	<u>-</u>	<u>-</u>
Net foreign currency translation adjustments	<u>(11,977)</u>	<u>46,072</u>
Share of other comprehensive income/(loss) of equity method investments:		
Gains/(losses) arising during the period	(3,678)	4,592
Reclassification adjustments	<u>(88)</u>	<u>(10)</u>
Share of other comprehensive income/(loss) of equity method investments	<u>(3,766)</u>	<u>4,581</u>
Total other comprehensive income	<u>19,506</u>	<u>291,668</u>

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2012 and 2013

For the year ended March 31, 2012

1. Type and number of shares issued and treasury stock

(In thousands of shares)

	Beginning balance	Increase	Decrease	Ending balance
Issued				
Common shares	1,404,402	—	—	1,404,402
Total	1,404,402	—	—	1,404,402

(Note) Not applicable to treasury stock

2. Dividends

(1) Dividends paid

Resolution	Type of shares	Type of assets for dividends and their book value (Yen in millions)	Dividends per share (in Yen)	Date of record	Effective date
Board meeting held on March 30, 2011	Common shares	Common shares of MS&AD Business Service Co., Ltd. 30	0.02	—	April 1, 2011
Board meeting held on May 19, 2011	Common shares	Treasury Discount Bills 11,198	7.97	March 31, 2011	June 10, 2011
Board meeting held on September 30, 2011	Common shares	Common shares of MS&AD Systems Co., Ltd. 100	0.07	—	October 1, 2011
Board meeting held on November 18, 2011	Common shares	Treasury Discount Bills 5,489	3.90	—	November 18, 2011

(Note) Date of record is the date to determine stockholders registered on the list of shareholders who are entitled to receive dividend.

**MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES**

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

- (2) Dividends to be made effective after March 31, 2012 for which the date of record is in the year ended March 31, 2012

Resolution	Type of shares	Type of assets for dividends and their book value (Yen in millions)	Source of dividends	Dividends per share (in Yen)	Date of record	Effective date
Board meeting held on May 18, 2012	Common shares	Treasury Discount Bills 11,199	Retained earnings	7.97	March 31, 2012	June 8, 2012

(Note) Date of record is the date to determine stockholders registered on the list of shareholders who are entitled to receive dividend.

For the year ended March 31, 2013

1. Type and number of shares issued and treasury stock

(In thousands of shares)

	Beginning balance	Increase	Decrease	Ending balance
Issued				
Common shares	1,404,402	—	—	1,404,402
Total	1,404,402	—	—	1,404,402

(Note) Not applicable to treasury stock

2. Dividends

(1) Dividends paid

Resolution	Type of shares	Type of assets for dividends and their book value (Yen in millions)	Dividends per share (in Yen)	Date of record	Effective date
Board meeting held on May 18, 2012	Common shares	Treasury Discount Bills 11,199	7.97	March 31 2012	June 8, 2012
Board meeting held on November 19, 2012	Common shares	Treasury Discount Bills 11,198	7.97	-	November 22, 2012

(Note) Date of record is the date to determine stockholders registered on the list of shareholders who are entitled to receive dividend.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

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

- (2) Dividends to be made effective after March 31, 2013 for which the date of record is in the year ended March 31, 2013

Resolution	Type of shares	Type of assets for dividends and their book value (Yen in millions)		Source of dividends	Dividends per share (in Yen)	Date of record	Effective date
Board meeting held on May 20, 2013	Common shares	Treasury Discount Bills	14,398	Retained earnings	10.25	March 31, 2013	June 14, 2013

(Note) Date of record is the date to determine stockholders registered on the list of shareholders who are entitled to receive dividend.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Cash Flows

For the years ended March 31, 2012 and 2013

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

	(Yen in millions)	
	March 31, 2012	March 31, 2013
Cash, deposits and savings	448,826	364,202
Call loans	22,000	69,000
Receivables under resale agreements	41,680	48,545
Monetary claims bought	85,482	92,035
Money trusts	9,817	10,081
Investments in securities	3,769,220	4,168,404
Time deposit with an original maturity of more than three months	(92,923)	(116,816)
Monetary claims bought other than cash equivalents	(65,094)	(60,467)
Money trust other than cash equivalents	(9,117)	(9,381)
Investments in securities other than cash equivalents	(3,751,623)	(4,139,534)
Cash and cash equivalents	458,269	426,068

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