

mitsui sumitomo insurance company limited - new zealand branch

financial statements

for the year ended 31 march 2015

MITSUI SUMITOMO INSURANCE COMPANY LIMITED - NEW ZEALAND BRANCH
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FOR THE YEAR ENDED 31 MARCH 2015

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The Board of Directors is pleased to present the financial statements of Mitsui Sumitomo Insurance Company Limited - New Zealand Branch, incorporating the auditor's report for the year ended 31 March 2015.

Information regarding the corporate governance policies, practices and processes of Mitsui Sumitomo Insurance Company Limited is available from www.ms-ad-hd.com/en/company/governance/corporate.html#relation.

Mitsui Sumitomo Insurance Company Limited - New Zealand Branch
Statement of Comprehensive Income
For the year ended 31 March 2015

	Notes	2015 \$	2014 \$
Gross earned premium	1	10,289,774	10,710,500
Reinsurance expense	2	<u>(3,401,826)</u>	<u>(3,177,869)</u>
Net Premium Revenue		6,887,948	7,532,631
Claims Expense	4	6,239,500	(12,768,919)
Reinsurance and Other Recoveries	1	(6,401,521)	18,053,368
Net Claims Expense		(162,021)	5,284,449
Commissions		(400,391)	(393,309)
Reinsurance commission income	1	<u>438,897</u>	<u>397,821</u>
Net Acquisition Costs		38,506	4,512
Underwriting Result		6,764,433	12,821,592
Operating Expenses	3	(1,385,860)	(1,344,786)
Investment income	1	2,257,673	1,618,804
Sundry income	1	<u>501</u>	<u>2,077</u>
Net Profit Before Tax		7,636,747	13,097,687
Taxation expense	5	-	-
Net Profit for the Year		7,636,747	13,097,687
Other comprehensive income for the year		-	-
Total Comprehensive Income for the Year		7,636,747	13,097,687

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 2015

	2015 \$	2014 \$
Opening Head Office Balance	<u>34,054,857</u>	<u>3,001,541</u>
Net Profit for the Year	<u>7,636,747</u>	<u>13,097,687</u>
Total Comprehensive Income for the Year	<u>7,636,747</u>	<u>13,097,687</u>
Funding from Head Office	<u>-</u>	<u>17,955,629</u>
Closing Head Office Balance	<u>41,691,604</u>	<u>34,054,857</u>


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 2015


	Notes	31 March 2015 \$	31 March 2014 \$
Assets			
Cash and Cash Equivalents		63,359,475	61,743,069
Investment in Government Stock	6	500,000	513,386
Premium Receivables		1,748,730	1,893,341
Other Current Assets	7	1,439,052	1,245,083
Reinsurance Receivable		834,645	378,843
Reinsurance Recoveries	8	35,219,522	42,670,039
Property, Plant and Equipment	9	25,579	36,653
Total Assets		103,127,003	108,480,414
Liabilities			
Accounts Payable	10	811,815	481,596
Reinsurance Payable		655,042	551,061
Other Current Liabilities	11	197,727	238,617
Unearned Premium Reserve	12	2,834,754	3,300,056
Outstanding Claims Liability	13	55,362,010	68,785,176
Due to Related Parties	17	1,574,051	1,069,051
Total Liabilities		61,435,399	74,425,557
Net Assets		41,691,604	34,054,857
Head Office Account		41,691,604	34,054,857

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

21 JUL 2015
Date


Director

21 JUL 2015
Date

Mitsui Sumitomo Insurance Company Limited - New Zealand Branch
Statement of Cash Flows
For the year ended 31 March 2015

	Notes	2015 \$	2014 \$
Cash flows from operating activities			
Premiums received		9,969,083	10,847,433
Reinsurance and other recoveries received		593,194	17,802,458
Interest received		2,240,516	1,584,601
Claims paid		(7,183,666)	(68,673,790)
Reinsurance premiums paid		(3,489,071)	(3,168,120)
Net acquisition costs received		60,973	11,677
Income tax received		-	-
Operating expenses paid		(572,294)	(1,713,214)
Net cash used in operating activities	19	<u>1,618,735</u>	<u>(43,308,955)</u>
Cash flows from investing activities			
Payments for purchases of plant & equipment		(2,329)	(857)
Proceeds from sale of plant and equipment		-	-
Net cash used in investing activities		<u>(2,329)</u>	<u>(857)</u>
Cash flows from financing activities			
Funding from Head Office		-	17,955,629
Net cash from financing activities		<u>-</u>	<u>17,955,629</u>
Net decrease in cash and cash equivalents		<u>1,616,406</u>	<u>(25,354,183)</u>
Cash and cash equivalents at the beginning of the financial year		<u>61,743,069</u>	<u>87,097,252</u>
Cash and cash equivalents at the end of the financial year		<u>63,359,475</u>	<u>61,743,069</u>

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 AMP Centre, 29 Customs Street West, 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.

Basis of Preparation

Statement of compliance

The Branch is a profit oriented entity. The Company is classified as a Financial Market Conduct (FMC) Reporting Entity for the purpose of the FMC Act 2013. The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 2013 and the Insurance (Prudential Supervision) Act 2010. They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as applicable for Tier 1 for-profit entities under the External Reporting Board of New Zealand (XRB) accounting standards framework. They also comply with International Financial Reporting Standards

The financial statements of the Branch are for the year ended 31 March 2015. The financial statements were authorised for issue by the Directors on the 21 of July 2015.

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 23. These relate to the outstanding claims liability and reinsurance recoveries in Notes 13 and 8 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.

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.

Significant Accounting Policies (continued)

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 2015 (2014: Nil).

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.

Significant Accounting Policies (continued)

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 20 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 2015, 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 is expected to become mandatory for the Branch's March 2019 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.

Mitsui Sumitomo Insurance Company Limited - New Zealand Branch
Notes to the Financial Statements
For the year ended 31 March 2015

	2015	2014
	\$	\$
1 Total Revenue		
This comprises:		
Gross written premium	9,824,472	10,247,287
Change in unearned premium provision	465,302	463,213
Gross Earned Premium	10,289,774	10,710,500
Reinsurance commission income	438,897	397,821
Reinsurance and other recoveries	(6,401,521)	18,053,368
Reinsurance Income	(5,962,624)	18,451,189
Investment income	2,257,673	1,618,804
Other income	501	2,077
Sundry income	501	2,077
Total Revenue	6,585,324	30,782,570
1(a) Premium Revenue		
Direct	10,241,271	10,645,471
Reinsurance	48,503	65,029
Total Gross Earned Premium	10,289,774	10,710,500
1(b) Investment Income		
Financial assets at fair value through profit or loss (designated upon initial recognition)		
Interest income	14,842	30,000
Change in fair value	(13,386)	(21,893)
Cash and cash equivalents interest income	2,256,217	1,610,697
Total Investment Income	2,257,673	1,618,804
2 Reinsurance Expense	2015	2014
	\$	\$
Outward reinsurance premium expense	(3,530,481)	(3,080,057)
Change in unearned reinsurance premium provision	128,655	(97,812)
	(3,401,826)	(3,177,869)
3 Operating Expenses	2015	2014
	\$	\$
Management fee	884,928	783,315
Fees paid to auditors:		
audit	79,500	103,344
tax	5,935	11,660
Depreciation	13,403	11,847
Employee benefits	159,882	151,865
Other expenses	242,212	282,755
Total operating expenses	1,385,860	1,344,786

	2015 \$	2014 \$
4 Claims Expense		
Direct	(6,239,500)	12,768,919
Reinsurance	-	-
	<u>(6,239,500)</u>	<u>12,768,919</u>

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

	Current Year \$	Prior Years \$	Total \$
2015			
Gross claims incurred - undiscounted	3,351,480	(9,604,964)	(6,253,484)
Discount movement	(13,380)	27,364	13,984
<i>Gross claims incurred - discounted</i>	<u>3,338,100</u>	<u>(9,577,600)</u>	<u>(6,239,500)</u>
Reinsurance and other recoveries - undiscounted	(996,524)	7,406,222	6,409,698
Discount movement	2,726	(10,903)	(8,177)
<i>Reinsurance and other recoveries - discounted</i>	<u>(993,798)</u>	<u>7,395,319</u>	<u>6,401,521</u>
Net claims incurred	<u>2,344,302</u>	<u>(2,182,281)</u>	<u>162,021</u>
	Current Year \$	Prior Years \$	Total \$
2014			
Gross claims incurred - undiscounted	1,547,586	11,175,031	12,722,617
Discount movement	(10,806)	57,108	46,302
<i>Gross claims incurred - discounted</i>	<u>1,536,780</u>	<u>11,232,139</u>	<u>12,768,919</u>
Reinsurance and other recoveries - undiscounted	(166,635)	(17,871,649)	(18,038,284)
Discount movement	2,612	(17,698)	(15,084)
<i>Reinsurance and other recoveries - discounted</i>	<u>(164,023)</u>	<u>(17,889,345)</u>	<u>(18,053,368)</u>
Net claims incurred	<u>1,372,757</u>	<u>(6,657,206)</u>	<u>(5,284,449)</u>

Included in reinsurance recoveries is a gain of \$59,543 (2014: \$1,255,458) in relation to the impact of the movement in the Japan/New Zealand exchange rate on the retention under the Mitsui global catastrophe reinsurance programme which is denominated in Japanese Yen.

Details of the uncertainties that exist in measuring gross incurred claims and reinsurance recoveries arising from the Canterbury earthquakes are explained in Note 13.

	2015 \$	2014 \$
5 Taxation Expense		
Reconciliation of effective tax rate		
Profit before tax	7,636,747	13,097,687
Income tax at Branch tax rate 28% (2014: 28%)	2,138,289	3,667,352
Non deductible expenses	-	140
Tax adjustment on unrecognised losses	(2,138,289)	(3,667,492)
Prior period under provision	-	-
Total Income Tax Expense	<u>-</u>	<u>-</u>

6 Investment in Government Stock	2015	2014
	\$	\$
Fixed income securities - New Zealand Government Stock	<u>500,000</u>	<u>513,386</u>
7 Other Current Assets	2015	2014
	\$	\$
Accrued income	183,829	153,286
Deferred acquisition costs	263,803	264,589
Deferred reinsurance premium	660,038	531,383
Prepaid expenses	94,710	46,743
GST receivable	<u>236,672</u>	<u>250,082</u>
	<u>1,439,052</u>	<u>1,245,083</u>
7(a) Deferred acquisition costs		
Deferred acquisition costs at 1 April	264,589	281,476
Acquisition costs deferred	399,605	376,422
Amortisation charged to the profit or loss	<u>(400,391)</u>	<u>(393,309)</u>
Deferred acquisition costs at 31 March	<u>263,803</u>	<u>264,589</u>
7(b) Deferred reinsurance premium		
Deferred reinsurance premium at 1 April	531,383	629,195
Reinsurance premium deferred	3,530,481	3,080,057
Reinsurance premium charged to the profit or loss	<u>(3,401,826)</u>	<u>(3,177,869)</u>
Deferred reinsurance premium at 31 March	<u>660,038</u>	<u>531,383</u>
8 Reinsurance Recoveries	2015	2014
	\$	\$
Reinsurance recoveries arising from claims	<u>35,219,522</u>	<u>42,670,039</u>
Reinsurance and other recoveries receivable at 1 April	42,670,039	42,597,925
Recoveries on claims reassessed	(7,395,319)	17,889,345
Recoveries received	(1,046,996)	(17,981,254)
Recoveries on new claims	<u>993,798</u>	<u>164,023</u>
Reinsurance and other recoveries receivable at 31 March	<u>35,219,522</u>	<u>42,670,039</u>

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

There are still 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 13.

9 Property, Plant and Equipment

Cost	Motor vehicles \$	Office equipment \$	Total \$
Balance at 1 April 2013	41,189	40,015	81,204
Additions	-	-	-
Disposals	-	-	-
Balance at 31 March 2014	41,189	40,015	81,204
Additions	-	2,329	2,329
Balance at 31 March 2015	41,189	42,344	83,533
Accumulated depreciation			
Balance at 1 April 2013			
Charge for the year	1,373	31,331	32,704
Balance at 31 March 2014	7,997	3,850	11,847
Charge for the year	9,370	35,181	44,551
Balance at 31 March 2015	8,650	4,753	13,403
	18,020	39,934	57,954
Carrying amounts			
At 31 March 2014	31,819	4,834	36,653
At 31 March 2015	23,169	2,410	25,579

10 Accounts Payable

	2015 \$	2014 \$
Trade creditors and accruals	664,309	364,150
Government levies	147,506	117,446
	811,815	481,596

11 Other Current Liabilities

	2015 \$	2014 \$
Unearned reinsurance commission	106,714	85,033
Non-resident withholding tax	91,013	153,584
	197,727	238,617

11(a) Unearned reinsurance commission

Unearned reinsurance commission at 1 April	85,033	94,755
Reinsurance commission deferred	460,578	388,099
Reinsurance commission recognised in profit or loss	(438,897)	(397,821)
Unearned reinsurance commission at 31 March	106,714	85,033

12 Unearned Premium Reserve

	2015 \$	2014 \$
Unearned premium liability	2,834,754	3,300,056
Unearned premium liability at 1 April	3,300,056	3,763,268
Deferral of premium on contracts written at year end	2,834,754	3,300,056
Prior year premium earned	(3,300,056)	(3,763,268)
Unearned premium liability at 31 March	2,834,754	3,300,056

12 Unearned Premium Reserve (continued)

Liability adequacy test

A liability adequacy test ("LAT") was performed as at 31 March 2015 and 31 March 2014. Both tests identified a surplus the calculations for which are disclosed below:

	2015	2014
	\$	\$
Gross unearned premium	2,834,754	3,300,056
Deferred reinsurance premium	(660,038)	(531,383)
Deferred acquisition expenses	(263,803)	(264,589)
Premium available to meet expected claims cost	<u>1,910,913</u>	<u>2,504,084</u>
Net premium liability (including 75% probability of adequacy risk margin)	1,023,734	1,207,697
LAT result	Pass	Pass

The risk margin included in the Branch's expected future cash flows for future claims is 27% (2014: 28%). 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 risk margins adopted at this valuation are based on a review of the most recent experience.

13 Outstanding Claims Liability

13(a) Gross outstanding claims liability

	2015	2014
	\$	\$
Central estimate of outstanding claims liabilities	51,115,451	64,083,427
Discount to present value	(11,113)	(23,364)
Risk margin	4,219,161	4,638,508
Claims handling expense	<u>38,511</u>	<u>86,605</u>
	<u>55,362,010</u>	<u>68,785,176</u>

There remains uncertainty surrounding the measurement of gross claims liabilities and the related reinsurance recoveries arising from the Canterbury earthquakes. The uncertainty arises from a number of factors including; longer than normal claims development periods; the number 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. However as the Canterbury earthquakes are settled the magnitude of this uncertainty decreases.

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 2015. Any changes to estimates will be recorded in the accounting period when they become known.

13(b) Claims development table

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

Ultimate claims cost estimate	2009	2010	2011	2012	2013	2014	2015	Total
	\$	\$	\$	\$	\$	\$	\$	\$
At end of accident year	-	-	130,285,081	8,353,454	2,613,262	1,427,174	3,219,289	3,219,289
One year later	-	823,291	140,506,924	8,631,171	1,862,865	1,150,409	-	1,150,409
Two years later	1,038,768	825,958	150,311,131	7,761,977	1,541,712	-	-	1,541,712
Three years later	1,038,231	827,912	169,156,948	7,058,354	-	-	-	7,058,354
Four years later	1,038,231	827,912	161,445,112	-	-	-	-	161,445,112
Five years later	1,038,231	828,923	-	-	-	-	-	828,923
Six years later	1,038,231	-	-	-	-	-	-	1,038,231
Total current estimate of ultimate claims costs	1,038,231	828,923	161,445,112	7,058,354	1,541,712	1,150,409	3,219,289	176,282,030
Cumulative payments	1,038,231	737,788	115,762,471	2,238,637	1,541,712	1,145,473	2,702,267	125,166,579
Undiscounted central estimate	-	91,135	45,682,641	4,819,717	-	4,936	517,022	51,115,451
Discount	-	393	-	-	-	93	10,627	11,113
Discounted central estimate	-	90,742	45,682,641	4,819,717	-	4,843	506,395	51,104,338
Claims handling expense	-	-	-	-	-	-	-	38,511
Risk margin	-	-	-	-	-	-	-	4,219,161
Gross outstanding claims liability	-	-	-	-	-	-	-	55,362,010
Reinsurance recoveries on outstanding claims liability	-	-	-	-	-	-	-	(35,219,522)
Net outstanding claims liability	-	-	-	-	-	-	-	20,142,488

13 Outstanding Claims Liability (continued)

	2015 \$	2014 \$
13(c) Reconciliation of movement in outstanding claims		
Outstanding claims liability at 1 April	68,785,176	124,690,047
Claims reassessed	(9,577,601)	11,232,139
Claims paid	(7,183,666)	(68,673,790)
New claims	3,338,100	1,536,780
Outstanding claims liability at 31 March	<u>55,362,009</u>	<u>68,785,176</u>

14 Deferred Tax

Deferred tax assets and liabilities are attributable to the following:

2015	Assets \$	Liabilities \$	Total \$
Tax losses	91,013	-	91,013
Other items	-	(91,013)	(91,013)
Total	<u>91,013</u>	<u>(91,013)</u>	<u>-</u>
2014	Assets \$	Liabilities \$	Total \$
Tax losses	74,085	-	74,085
Other items	-	(74,085)	(74,085)
Total	<u>74,085</u>	<u>(74,085)</u>	<u>-</u>

At 31 March 2015 the Branch has unused tax losses of \$84,319,832 (2014: \$91,956,579) for which no deferred tax asset is recognised.

15 Contingent Liabilities

The Branch has no contingent liabilities at balance date (2014: Nil).

16 Commitments

The Branch has no commitments for expenditure at balance date (2014: Nil).

17 Related Party Information

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

Transactions with Head Office:	2015 \$	2014 \$
Reinsurance premiums	875,917	696,478
Reinsurance recoveries	(153,764)	(17,611,971)
Reinsurance commission earned	(169,775)	(137,347)
Other expense paid/ recharged	(47,378)	(22,707)
Funding from Head Office	-	(17,955,629)
	<u>505,000</u>	<u>(35,031,176)</u>

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.

17 Related Party Information (continued)

	2015 \$	2014 \$
Outstanding balance with Head Office:		
Due to related parties	<u>1,574,051</u>	<u>1,069,051</u>
Aloi Management New Zealand Ltd ("Aloi"), a related entity, provides motor vehicle claims handling services on behalf of the Branch.		
Transactions with Aloi:	2015 \$	2014 \$
Management fees paid	<u>35,500</u>	<u>37,000</u>
Outstanding balance with Aloi:		
Other current assets	<u>94,710</u>	<u>45,743</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:

	2015 \$	2014 \$
Short-term employee benefits	<u>153,512</u>	<u>146,489</u>

18 Credit Rating

Mitsui Sumitomo Insurance Company Limited has received an A+ (2014: A+) credit rating from Standard and Poor's. The credit rating is an indication of the ability to pay current and future claims.

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

	2015 \$	2014 \$
Net profit for the period	7,636,747	13,097,687
Movement in financial assets at fair value through profit or loss	13,386	21,893
Depreciation	13,403	11,847
<i>Change in operating assets and liabilities</i>		
Decrease/(increase) in premium receivables	144,611	600,145
Decrease in taxation receivable	-	197
Increase in reinsurance receivables	(455,802)	(178,786)
Increase in reinsurance recoveries	7,450,517	(72,114)
(Increase)/decrease in other current assets	(193,969)	(153,751)
(Decrease)/increase in accounts payable	330,219	(139,019)
(Decrease)/increase in reinsurance payable	103,981	(162,449)
Increase/(decrease) in other current liabilities	(40,890)	64,664
Decrease in outstanding claims liability	(13,423,166)	(55,904,871)
(Decrease)/increase in unearned premium reserve	(465,302)	(463,212)
(Decrease)/increase in amounts due to related parties	505,000	(31,176)
Net cash flow from operating activities	<u>1,518,735</u>	<u>(43,308,955)</u>

20 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 2015 Annual Report and the 31 March 2015 Supplement to the Earnings Report available from www.ms-ad-hd.com, as calculated under the Japanese regulations. The 2015 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.

	2015 Yen in millions (Unaudited)	2014 Yen in millions (Unaudited)
Solvency Margin Total Amount	2,667,909	2,120,694
Risk Amount	818,935	706,497
Solvency Margin Ratio	651.5%	600.3%

21 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 Bank New Zealand Limited and ASB Bank Limited of \$48,285,807 and \$15,073,688 respectively (2014: \$46,671,557 and \$15,071,512 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 \$7,995,450 (2014: \$9,560,442).

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 \$
2015					
Cash and Cash Equivalents	63,359,475	-	-	-	63,359,475
Investment in Government Stock	500,000	-	-	-	500,000
Premium Receivables	-	-	-	1,748,730	1,748,730
Other Current Assets - Accrued Income	183,829	-	-	-	183,829
Reinsurance Receivable	-	834,645	-	-	834,645
Reinsurance Recoveries	8,940,793	25,989,385	-	289,344	35,219,522
Total	72,984,097	26,824,030	-	2,038,074	101,846,201
	Credit Rating				
	AA \$	A \$	BBB \$	Not Rated \$	Total \$
2014					
Cash and Cash Equivalents	61,743,069	-	-	-	61,743,069
Investment in Government Stock	513,386	-	-	-	513,386
Premium Receivables	-	-	-	1,893,341	1,893,341
Other Current Assets - Accrued Income	153,286	-	-	-	153,286
Reinsurance Receivable	-	378,843	-	-	378,843
Reinsurance Recoveries	10,725,687	31,636,022	-	308,330	42,670,039
Total	73,135,428	32,014,865	-	2,201,671	107,351,964

As at 31 March 2015 there are no assets that are past due or impaired (2014: Nil).

21 Financial Risk Management (continued)

(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. All financial assets mature in 0-1 Year.

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.

	Maturing in:				
	0 - 1 Year	1 - 2 Years	2 - 4 Years	No Term	Total
	\$	\$	\$	\$	\$
2015					
Financial Liabilities					
Reinsurance Payable	655,042	-	-	-	655,042
Outstanding claims liability	55,241,028	102,375	18,607	-	55,362,010
Due to Related Parties	-	-	-	1,574,051	1,574,051
Trade creditors and accruals	664,309	-	-	-	664,309
Total	56,560,379	102,375	18,607	1,574,051	58,255,412
	Maturing in:				
	0 - 1 Year	1 - 2 Years	2 - 4 Years	No Term	Total
	\$	\$	\$	\$	\$
2014					
Financial Liabilities					
Reinsurance Payable	551,061	-	-	-	551,061
Outstanding claims liability	4,775,318	63,995,247	14,611	-	68,785,176
Due to Related Parties	-	-	-	1,069,051	1,069,051
Trade creditors and accruals	364,150	-	-	-	364,150
Total	5,690,529	63,995,247	14,611	1,069,051	70,769,438

(c) Market risk

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

(i) Currency risk

Currency risk is the risk of cash flow uncertainty that may arise from a movement in foreign exchange rates to which the Branch may be exposed. The Branch is primarily exposed to currency risk through its catastrophe reinsurance programme. The threshold at which reinsurance recoveries can be claimed is expressed in Japanese Yen. A 1% strengthening of the Yen against the New Zealand dollar would result in an increase in the threshold of \$52,180 (2014: \$63,914), and a corresponding decrease in reinsurance recoverable at 31 March 2015.

(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.

21 Financial Risk Management (continued)

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

	Interest Rate Risk		
	Carrying Amount	-1% Profit/Equity	+1% Profit/Equity
	\$	\$	\$
2015			
Financial Assets			
Cash and Cash Equivalents	63,359,475	(633,595)	633,595

	Interest Rate Risk		
	Carrying Amount	-1% Profit/Equity	+1% Profit/Equity
	\$	\$	\$
2014			
Financial Assets			
Cash and Cash Equivalents	61,743,089	(617,431)	617,431

Fair Value Sensitivity Analysis for Fixed Rate Instruments

	Interest Rate Risk		
	Carrying Amount	-1% Profit/Equity	+1% Profit/Equity
	\$	\$	\$
2015			
Financial Assets			
Investment in Government Stock	500,000	5,000	(4,950)

	Interest Rate Risk		
	Carrying Amount	-1% Profit/Equity	+1% Profit/Equity
	\$	\$	\$
2014			
Financial Assets			
Investment in Government Stock	513,386	5,218	(5,140)

Analysis of Financial Assets/Liabilities

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

	Total	Loans and Receivables	Fair Value through Profit and Loss
	\$	\$	\$
2015			
Financial Assets			
Cash and Cash Equivalents	63,359,475	63,359,475	-
Investment in Government Stock	500,000	-	500,000
Premium Receivables	1,748,730	1,748,730	-
Other Current Assets - Accrued Income	183,829	183,829	-
Reinsurance Receivable	834,645	834,645	-
Total	66,626,679	66,126,679	500,000

	Total	Fair Value through Profit and Loss	Financial Liabilities at amortised cost
	\$	\$	\$
Financial Liabilities			
Accounts Payable - Trade Creditors and Accruals	664,309	-	664,309
Reinsurance Payable	655,042	-	655,042
Due to Related Parties	1,574,051	-	1,574,051
Total	2,893,402	-	2,893,402

21 Financial Risk Management (continued)

2014	Total \$	Loans and Receivables \$	Fair Value through Profit and Loss \$
Financial Assets			
Cash and Cash Equivalents	61,743,069	61,743,069	-
Investment in Government Stock	513,386	-	513,386
Premium Receivables	1,893,341	1,893,341	-
Other Current Assets - Accrued Income	153,286	153,286	-
Reinsurance Receivable	378,843	378,843	-
Total	64,681,925	64,168,539	513,386

	Total \$	Fair Value through Profit and Loss \$	Financial Liabilities at amortised cost \$
Financial Liabilities			
Accounts Payable - Trade Creditors and Accruals	364,150	-	364,150
Reinsurance Payable	551,061	-	551,061
Due to Related Parties	1,069,051	-	1,069,051
Total	1,984,262	-	1,984,262

Fair Value of Financial Instruments

Fair values of financial assets carried at fair value 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 (2014: 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.

22 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.

22 Insurance Risk (continued)

(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

23 Actuarial Assumptions and Methods

(a) Incurred claim settlement patterns

The outstanding claims liability for non-Canterbury earthquake claims has been determined using either the incurred chain ladder or the Bornhuetter-Ferguson (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 12 months (2014: 22 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 3.35% per annum (2014: 3.2%).

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 21(o)(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 26.5% (2014: 21.6%). This is largely driven by the risk margin assumptions relating to the Canterbury earthquake claims.

The non-earthquake risk margins for both outstanding claims and liability adequacy testing have been reviewed as part of the 2014 valuation and are 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% (2014: 75%).

23 Actuarial Assumptions and Methods (continued)

(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	2015	2014
Discount Rate %	+1%		
	-1%	(2,351)	(3,688)
IBNR Tail Strengthening	+1%	2,401	3,759
	-1%		
Risk Margin %	+1% p.a. for 4 quarters	105,997	108,237
	+1%	159,234	214,766
	-1%	(159,234)	(214,766)

(g) Actuarial Information

John Smeed (Actuary, Fintly) 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 2015.

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 2015 are outlined in the note listed above.

The actuary has no financial interest in the Branch.

24 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 2015 or the Branch's financial position as at 31 March 2015.

Independent auditor's report

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

We have audited the accompanying financial statements of Mitsui Sumitomo Insurance Company Limited - New Zealand Branch ("the Branch") on pages 3 to 23. The financial statements comprise the statement of financial position as at 31 March 2015, the statement of comprehensive income, movements 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 and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) 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 and fair presentation of the financial statements 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. Subject to certain restrictions, 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 3 to 23 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of Mitsui Sumitomo Insurance Company Limited - New Zealand Branch as at 31 March 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards

Emphasis of matter

We draw attention to Notes 4 and 13 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.

KPMG

21 July 2015
Auckland

24 July 2015

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 2015
Mitsui Sumitomo Insurance Company Limited**

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, and report on, actuarial information contained in the financial statements of Mitsui Sumitomo Insurance Company Limited (MSI) as at 31 March 2015, as required under sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010.

This report has been prepared by John Smeed, an employee of Finity and the Appointed Actuary to Mitsui NZ. Finity has no relationship with Mitsui NZ or MSI apart from the Appointed Actuary roles in New Zealand and Australia.


Actuarial Information

Mitsui NZ has been granted exemption under Section 59 of the Insurance (Prudential Supervision) Act 2010, which applies to overseas insurers of approved jurisdictions.

We have relied upon the work undertaken by members of MSI staff in Japan in the preparation and review of the actuarial information contained in MSI's financial statements. We have sought and been provided with appropriate assurances by MSI management that the actuarial information has been prepared in accordance with accepted principles and methods.

This review is being provided for the sole use of Mitsui NZ for the purpose stated above in order to comply with the requirements of section 77 and 78 of the Act. It is not intended, nor necessarily suitable, for any other purpose and should only be relied on for the purpose for which it is intended.

Yours sincerely



John Smeed
Appointed Actuary



Anita Samu

Fellows of the New Zealand Society of Actuaries

Fri 24 July 2015 9:28 AM

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24 July 2015

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 2015
Mitsui Sumitomo Insurance Company Limited - New Zealand Branch**

Finit Consulting Pty Limited (Finit) has been asked by Mitsui Sumitomo Insurance Company Limited, New Zealand Branch (Mitsui NZ) to carry out a review of the 31 March 2015 actuarial information contained in the financial statements and provide an opinion as to its appropriateness. John Smeed is an employee of Finit and is the Appointed Actuary to Mitsui NZ. Finit 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 2015 have been prepared in accordance with this policy, and as such this satisfies the requirements of the Act.

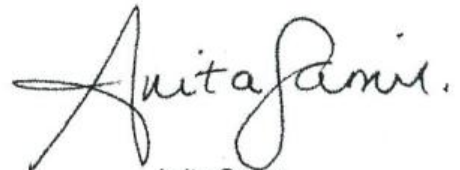
Having carried out our actuarial review nothing has come to our attention that would lead us to believe that the actuarial information contained in the financial statements for Mitsui NZ as at 31 March 2015 is inappropriate.

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 for the purpose for which it is intended.

Yours sincerely



John Smeed
Appointed Actuary



Anita Samu

Fellows of the New Zealand Society of Actuaries

Fri 24 July 2015 9:30 AM

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MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Financial Statements
For the years ended March 31, 2014 and 2015

(With Independent Auditor's Report Thereon)

Yuji Ito
Director, Managing Executive Officer
Mitsui Sumitomo Insurance Company, Limited

22 JUN 2015

Masahiro Matsumoto
Director, Managing Executive Officer
Mitsui Sumitomo Insurance Company, Limited

22 JUN 2015



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 of March 31, 2014 and 2015, and the statements of income and statements of changes in net assets for the years then ended, and a summary of significant accounting policies and other explanatory information.

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 of March 31, 2014 and 2015, and their financial performance for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

June 22, 2015
Tokyo, Japan

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets

As of March 31, 2014 and 2015

	2014	2015
	(Yen in millions)	
<u>Assets</u>		
Assets		
Cash, deposits and savings:		
Cash on hand	¥ 174	124
Deposits in banks	<u>188,554</u>	<u>214,906</u>
Total cash, deposits and savings	188,728	215,030
Call loans	50,000	40,000
Receivables under resale agreements	23,997	36,497
Monetary claims bought	65,781	95,949
Money trusts	10,371	12,913
Investments in securities:		
Government bonds	1,188,375	1,419,581
Municipal bonds	97,187	96,178
Corporate bonds	587,928	522,086
Stock	1,809,709	2,247,738
Foreign securities	803,384	896,805
Other securities	<u>16,034</u>	<u>22,996</u>
Total investments in securities	4,502,619	5,205,386
Loans:		
Policy loans	9,834	8,953
General loans	<u>528,389</u>	<u>489,686</u>
Total loans	538,224	498,639
Tangible fixed assets:		
Land	87,736	85,729
Buildings	136,237	130,824
Construction in progress	2,528	1,327
Other tangible fixed assets	<u>12,436</u>	<u>10,679</u>
Total tangible fixed assets	238,938	228,560
Intangible fixed assets:		
Software	37,594	28,784
Other intangible fixed assets	<u>2,507</u>	<u>20,877</u>
Total intangible fixed assets	40,101	49,661

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2014	2015
	(Yen in millions)	
Other assets:		
Premiums receivable	¥ 4,032	4,145
Due from agencies	105,621	113,039
Co-insurance accounts receivable	9,161	6,405
Reinsurance accounts receivable	57,037	55,826
Foreign reinsurance accounts receivable	91,483	39,437
Agency business accounts receivable	213	237
Other receivables	28,363	27,724
Accrued income	6,180	6,230
Guarantee deposits	12,414	11,730
Deposits with Japan Earthquake Reinsurance Co.,Ltd.	9,932	10,584
Suspense payments	39,659	41,454
Variation margins of futures markets	0	-
Derivative financial instruments	41,154	44,147
Other assets	<u>1,329</u>	<u>1,179</u>
Total other assets	406,584	362,144
Customers' liabilities under acceptances and guarantees	49,094	52,214
Bad debt reserve	<u>(16,423)</u>	<u>(6,977)</u>
Total assets	¥ <u>6,098,017</u>	<u>6,790,021</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2014	2015
	(Yen in millions)	
<u>Liabilities and Net Assets</u>		
Liabilities		
Policy liabilities:		
Outstanding claims	¥ 652,310	640,913
Underwriting reserves	<u>3,293,219</u>	<u>3,314,789</u>
Total policy liabilities	3,945,530	3,955,703
Bonds issued	176,185	176,188
Other liabilities:		
Co-insurance accounts payable	11,925	10,561
Reinsurance accounts payable	54,777	59,080
Foreign reinsurance accounts payable	27,092	29,780
Agency business accounts payable	34	36
Borrowings	100,000	100,000
Income taxes payable	4,890	6,508
Deposits received	16,166	19,344
Unearned income	103	90
Other payables	25,853	46,583
Suspense receipts	23,096	21,527
Derivative financial instruments	9,119	2,405
Cash collateral received under derivative transactions	62,061	106,136
Lease obligations	1,706	1,185
Asset retirement obligations	4,634	3,710
Other liabilities	<u>2,858</u>	<u>501</u>
Total other liabilities	344,318	407,453
Reserve for pension and retirement benefits	139,895	137,329
Reserve for retirement benefits for officers	1,070	912
Accrued bonuses for employees	11,249	12,387
Reserves under the special laws:		
Reserve for price fluctuation	<u>19,731</u>	<u>60,519</u>
Total reserves under the special laws	19,731	60,519
Deferred tax liabilities	101,331	254,567
Acceptances and guarantees	<u>49,094</u>	<u>52,214</u>
Total liabilities	<u>4,788,409</u>	<u>5,057,276</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2014	2015
	(Yen in millions)	
Net Assets		
Shareholders' equity:		
Common stock	¥ 139,595	139,595
Capital surplus:		
Additional paid-in capital	<u>93,107</u>	<u>93,107</u>
Total capital surplus	<u>93,107</u>	<u>93,107</u>
Retained earnings:		
Legal earned reserve	46,487	46,487
Other retained earnings:		
Tax-exempted reserve for accelerated depreciation	15,385	15,406
Retained earnings brought forward	<u>178,484</u>	<u>232,779</u>
Total other retained earnings	<u>193,869</u>	<u>248,185</u>
Total retained earnings	<u>240,357</u>	<u>294,673</u>
Total shareholders' equity	<u>473,061</u>	<u>527,376</u>
Valuation and translation adjustments:		
Net unrealized gains/(losses) on investments in securities	813,116	1,173,227
Net deferred gains/(losses) on hedges	<u>23,430</u>	<u>32,140</u>
Total valuation and translation adjustments	<u>836,547</u>	<u>1,205,368</u>
Total net assets	<u>1,309,608</u>	<u>1,732,745</u>
Total liabilities and net assets	¥ <u>6,098,017</u>	<u>6,790,021</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Income

For the years ended March 31, 2014 and 2015

	2014	2015
	(Yen in millions)	
<u>Ordinary income and expenses</u>		
Ordinary income:		
Underwriting income:		
Net premiums written	¥ 1,386,533	1,444,176
Deposit premiums from policyholders	113,037	104,342
Investment income on deposit premiums from policyholders	41,343	39,981
Reversal of outstanding claims	-	11,397
Reversal of underwriting reserves	44,570	-
Foreign exchange gains	971	6,284
Other underwriting income	107	682
Total underwriting income	1,586,564	1,606,863
Investment income:		
Interest and dividends income	112,260	110,618
Investment gains on money trusts	295	1,268
Gains on sales of securities	55,999	90,115
Gains on redemption of securities	1,778	1,658
Gains on derivative transactions	9,829	1,078
Foreign exchange gains	1,460	9,163
Other investment income	1,352	603
Transfer of investment income on deposit premiums from policyholders	(41,343)	(39,981)
Total investment income	141,633	174,526
Other ordinary income	3,176	6,197
Total ordinary income	1,731,374	1,787,587
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	823,665	810,853
Loss adjustment expenses	77,425	88,020
Commissions and collection expenses	239,034	253,813
Maturity refunds to policyholders	238,511	210,769
Dividends to policyholders	594	796
Provision for outstanding claims	8,441	-
Provision for underwriting reserves	-	21,569
Other underwriting expenses	493	484
Total underwriting expenses	1,388,165	1,386,306
Investment expenses:		
Losses on sales of securities	1,188	57
Impairment losses on securities	3,391	3,378
Losses on redemption of securities	714	250
Other investment expenses	3,120	4,373
Total investment expenses	8,415	8,059

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Income (Continued)

	2014	2015
	(Yen in millions)	
Operating expenses and general and administrative expenses	¥ 214,537	215,765
Other ordinary expenses:		
Interest expense	7,003	5,888
Provision for bad debts	11,018	-
Losses on bad debts	2	1
Other ordinary expenses	<u>234</u>	<u>237</u>
Total other ordinary expenses	<u>18,258</u>	<u>6,128</u>
Total ordinary expenses	<u>1,629,375</u>	<u>1,616,259</u>
Ordinary profit/(loss)	101,998	171,328
<u>Extraordinary income and losses</u>		
Extraordinary income:		
Gains on sales of fixed assets	4,162	8,523
Other extraordinary income	<u>-</u>	<u>1,800</u>
Total extraordinary income	4,162	10,323
Extraordinary losses:		
Losses on sales of fixed assets	2,611	1,862
Impairment losses on fixed assets	240	1,400
Provision for reserves under the special laws:		
Provision for reserve for price fluctuation	<u>14,580</u>	<u>40,788</u>
Total provision for reserves under the special laws	<u>14,580</u>	<u>40,788</u>
Other extraordinary losses	<u>4,182</u>	<u>-</u>
Total extraordinary losses	<u>21,615</u>	<u>44,051</u>
Income/(loss) before income taxes	84,545	137,599
Income taxes-current	2,512	9,702
Income taxes-deferred	<u>23,985</u>	<u>38,782</u>
Total income taxes	<u>26,497</u>	<u>48,485</u>
Net income/(loss)	¥ <u>58,047</u>	<u>89,114</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Changes in Net Assets

For the years ended March 31, 2014 and 2015

2014

(Yen in millions)

(in millions)

	Shareholders' equity					
	Common stock	Capital surplus	Retained earnings			Total Shareholders' equity
		Additional paid-in capital	Legal earned reserve	Other retained earnings		
				Tax-exempted reserve for accelerated depreciation	Retained earnings brought forward	
Beginning balance	¥ 139,595	93,107	46,487	15,660	182,416	477,268
Cumulative effect of changing accounting policies					(36,157)	(36,157)
Beginning balance (adjusted)	139,595	93,107	46,487	15,660	146,259	441,110
Changes for the year						
Provision for tax-exempted reserve for accelerated depreciation				8	(8)	-
Reversal of tax-exempted reserve for accelerated depreciation				(284)	284	-
Dividends paid					(26,097)	(26,097)
Net income/(loss)					58,047	58,047
Net changes of items other than shareholders' equity						
Total changes for the year	-	-	-	(275)	32,225	31,950
Ending balance	¥ 139,595	93,107	46,487	15,385	178,484	473,061

	Valuation and translation adjustments		Total net assets
	Net unrealized gains/(losses) on investments in securities	Net deferred gains/(losses) on hedges	
Beginning balance	¥ 688,381	26,428	1,192,079
Cumulative effect of changing accounting policies			(36,157)
Beginning balance (adjusted)	688,381	26,428	1,155,921
Changes for the year			
Provision for tax-exempted reserve for accelerated depreciation			-
Reversal of tax-exempted reserve for accelerated depreciation			-
Dividends paid			(26,097)
Net income/(loss)			58,047
Net changes of items other than shareholders' equity	124,735	(2,998)	121,736
Total changes for the year	124,735	(2,998)	153,686
Ending balance	¥ 813,116	23,430	1,309,608

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Changes in Net Assets (Continued)

2015

(Yen in millions)

	Shareholders' equity					
	Common stock	Capital surplus	Retained earnings			Total Shareholders' equity
		Additional paid-in capital	Legal earned reserve	Other retained earnings Tax-exempted reserve for accelerated depreciation	Retained earnings brought forward	
Beginning balance	¥ 139,595	93,107	46,487	15,385	178,484	473,061
Cumulative effect of changing accounting policies						-
Beginning balance (adjusted)	139,595	93,107	46,487	15,385	178,484	473,061
Changes for the year						
Provision for tax-exempted reserve for accelerated depreciation				411	(411)	-
Reversal of tax-exempted reserve for accelerated depreciation				(390)	390	-
Dividends paid					(34,798)	(34,798)
Net income/(loss)					89,114	89,114
Net changes of items other than shareholders' equity						
Total changes for the year	-	-	-	20	54,295	54,315
Ending balance	¥ 139,595	93,107	46,487	15,406	232,779	527,376

	Valuation and translation adjustments		Total net assets
	Net unrealized gains/(losses) on investments in securities	Net deferred gains/(losses) on hedges	
Beginning balance	¥ 813,116	23,430	1,309,608
Cumulative effect of changing accounting policies			-
Beginning balance (adjusted)	813,116	23,430	1,309,608
Changes for the year			
Provision for tax-exempted reserve for accelerated depreciation			-
Reversal of tax-exempted reserve for accelerated depreciation			-
Dividends paid			(34,798)
Net income/(loss)			89,114
Net changes of items other than shareholders' equity	360,110	8,709	368,820
Total changes for the year	360,110	8,709	423,136
Ending balance	¥ 1,173,227	32,140	1,732,745

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements

For the years ended March 31, 2014 and 2015

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 (hereinafter referred to as "the Company") prepared in accordance with the provisions set forth in the Corporate Accounting Regulations, the Enforcement Regulations of the Japanese Insurance Business Act 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 Japanese yen. As permitted by the regulations under the Corporate Accounting Regulations, amounts are rounded down to the nearest million of Japanese yen, except for those stated otherwise. As a result, the totals shown in the accompanying non-consolidated financial statements in Japanese yen do not necessarily agree with the sums of the individual amounts.

2. Accounting policies

(1) Valuation policies and methods of securities (including those included in Cash, deposits and savings, and Monetary claims bought, as set forth in the Enforcement Regulations of the Japanese Insurance Business Act)

(i) Investments in subsidiaries and associates are valued at cost determined by the moving average method.

(ii) Available-for-sale securities (except for those without practically determinable fair value) 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.

(iii) Available-for-sale securities without practically determinable fair value are valued at cost using the moving average method.

(iv) Money trusts which are specifically managed for the Company for trading purposes are valued at their year-end market prices. Money trusts which are specifically managed for the Company, other than money trusts held for trading purposes and money trusts held to maturity, are valued on the same basis as available-for-sale securities.

(2) Valuation policies and methods of derivative financial instruments

All derivative financial instruments, except for those such as foreign exchange forward contracts to which the allocation method is applied and interest rate swaps to which the exceptional method is applied, are valued at fair value.

(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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

(4) Depreciation methods of intangible fixed assets

Intangible fixed assets are amortized by the straight-line method. Capitalized software for internal use is amortized by the straight-line method over its estimated useful life (5 years).

(5) Translation of foreign currency assets and liabilities

Foreign currency monetary assets and liabilities 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 standards 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 outstanding balance 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 outstanding balance remaining after deducting the resale value of collateral, the amount collectible through guarantees and the amount expected to be repaid by the debtors considering their overall ability to pay.

For loans other than those described above, bad debt reserve is calculated by multiplying the outstanding balances by the historical bad debt ratios.

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

(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 year-end.

(a) Attribution method of retirement benefits over the service period

In computing retirement benefit obligations, the estimated retirement benefits are attributed to the periods up to the current year using the plan's benefit formula.

(b) Actuarial gains and losses and past service costs

Actuarial gains and losses are amortized, commencing from the following year, using the straight-line method over a certain number of years (10 years) that do not exceed the expected average remaining service period of the employees at the time of occurrence.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

Past service costs are amortized using the straight-line method over a certain number of years (4 years) that do not exceed the average remaining service 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 up to the year ended March 31, 2005, the date in which the retirement benefit plans for officers were terminated, is established based on the estimated amounts to be paid at the year-end 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 determined based on the estimated amounts to be paid at the year-end to provide for future bonuses for employees and operating officers.

(v) Reserve for price fluctuation

Reserve for price fluctuation is recognized under Article 115 of the Insurance Business Act to provide for possible losses arising from price fluctuation of investment assets such as equity securities.

(7) Hedge accounting

Under accounting principles generally accepted in Japan ("Japanese GAAP"), several methodologies are allowed for hedge accounting. Two fundamental approaches are the deferred hedge method and the fair value hedge method. Under the deferred hedge method, gains and losses on changes in 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 items, gains and losses on changes in fair value of the hedging instruments, are recognized in earnings together with the corresponding gains or losses on the hedged items attributable to the risks being hedged.

In addition, for certain derivative financial instruments, alternative treatments are permitted under Japanese GAAP. Assets and liabilities denominated in foreign currencies and hedged by foreign exchange forward contracts or currency swaps can be accounted for by the allocation method. Under this method, the foreign exchange forward contracts and currency swaps used as hedging instruments are not measured at fair value, since gains and losses on the derivatives are assumed to be offset with changes in fair value of the corresponding hedged items and hedged items are translated at the foreign exchange rates that are stipulated in the foreign exchange forward contracts or currency swaps (hedging instruments). 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 the hedged items (the exceptional method).

Gains and losses on equity forward contracts used for hedging risks of variability in the fair value of investments in equity securities are accounted for under the deferred hedge method. Gains and losses on currency swap contracts and certain foreign exchange forward contracts used for hedging risks of variability in foreign exchange rates on foreign currency bonds and other foreign currency assets are accounted for under the deferred hedge method, the fair value hedge method or the allocation method. Gains and losses on currency swap contracts used for hedging

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

risks of variability in foreign exchange rates on foreign currency bonds issued by the Company are accounted for under the allocation method. Interest rate swap contracts for hedging risks of variability in the cash flows of loans, bonds and borrowings arising from fluctuations in interest rates are accounted for under the deferred hedge method or the exceptional method when they meet certain criteria.

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

Certain interest rate swap contracts used for the ALM (Asset and Liability Management) to ensure adequate control of the risks of interest rate variability are accounted for under the deferred hedge method and assessed for hedge effectiveness in accordance with the Industry Audit Committee Report No. 26 "Accounting and Auditing Treatment of Application of the Accounting Standard for Financial Instruments in the Insurance Industry" (issued by the Japanese Institute of Certified Public Accountants on September 3, 2002). The hedge effectiveness of interest rate swaps used for the ALM is evaluated on a portfolio basis, based on whether upward and downward movements in value of the hedged items and the hedging instruments offset each other within a certain range, in respect to changes in the interest rates.

(8) Other significant items for preparation of financial statements

(i) Accounting for retirement benefits

The accounting treatment for unrecognized actuarial gains and losses and unrecognized past service costs related to retirement benefits in non-consolidated financial statements differs from those in consolidated financial statements.

(ii) Accounting for consumption taxes

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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets

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

(Yen in millions)	
March 31, 2014	March 31, 2015
36,720	59,600

(Note) The amounts in the above table are included in Stock and Foreign securities under Investments in securities as of March 31, 2014 and in Stock and Foreign securities under Investments in securities as of March 31, 2015.

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, 2014	March 31, 2015
Loans to borrowers in bankruptcy	6	3
Overdue loans	2,762	370
Loans overdue for 3 months or more	529	501
Restructured loans	2,855	556
Total	6,153	1,432

(Note) Loans to borrowers in bankruptcy represent those, excluding any part of bad debts that have been written off, on which accrued interest receivables are not recognized because repayments of the principal or interest have been overdue for considerable periods and regarded uncollectible (hereinafter, 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 Act Enforcement Ordinance (Cabinet Order No.97, 1965).

Overdue loans represent loans not accruing interest excluding (a) loans to borrowers in bankruptcy and (b) loans that have been granted a grace period for interest payments in order to assist the debtors' operational restructuring or financial recovery.

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

Restructured loans represent those which have been granted favorable terms for the benefit of the debtors, such as interest exemption or reduction, a grace period for interest payments, a grace period for principal repayments, or forgiveness of debts for the purpose of the 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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

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

	(Yen in millions)	
	March 31, 2014	March 31, 2015
Accumulated depreciation	272,996	272,376
Accelerated depreciation	15,119	14,649

(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 the sales of assets to be replaced by the acquired assets or receipts of governmental subsidies provided for the acquisition of the new assets. The total amounts deducted from the original acquisition cost of the qualifying properties held by the Company as of March 31, 2014 and 2015 were ¥15,119 million and ¥14,649 million, respectively.

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

	(Yen in millions)	
	March 31, 2014	March 31, 2015
Total amounts receivable	11,281	13,406
Total amounts payable	15,105	14,014

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

	(Yen in millions)	
	March 31, 2014	March 31, 2015
Deferred tax assets:		
Underwriting reserves	136,963	124,996
Reserve for pension and retirement benefits	42,948	39,550
Investments in securities	31,486	24,902
Outstanding claims	12,895	19,220
Reserve for price fluctuation	-	17,429
Software	13,053	12,538
Tax loss carried forward	31,599	-
Others	33,602	22,921
Total gross deferred tax assets	302,549	261,560
Less valuation allowance	(25,704)	(22,971)
Total net deferred tax assets	276,845	238,589
Deferred tax liabilities:		
Net unrealized gains/(losses) on investments in securities	(359,038)	(472,034)
Others	(19,138)	(21,121)
Total gross deferred tax liabilities	(378,176)	(493,156)
Total deferred tax liabilities net of deferred tax assets	(101,331)	(254,567)

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

(Revision of the amounts of deferred tax assets and deferred tax liabilities due to changes in income tax rate)

In accordance with the Act for Partial Revision of the Income Tax Act etc. (Act No.9 of 2015) promulgated on March 31, 2015, the corporate tax will be reduced from the year commencing on April 1, 2015.

As a result, the statutory income tax rate to be used to measure deferred tax assets and liabilities for temporary differences that are expected to be reversed during the years commencing on or after April 1, 2015 will be reduced from the current 30.7% to 28.8%.

The effect of the change in income tax rate was an increase in Net unrealized gains/(losses) on investments in securities of ¥31,141 million and Income taxes—deferred of ¥15,456 million and a decrease in Underwriting reserves of ¥820 million, Deferred tax liabilities (net of Deferred tax assets) of ¥16,542 million, and Net income of ¥14,636 million.

6. Guarantees and similar arrangements for subsidiaries and associates

March 31, 2014

(Guarantees)

The Company provides a guarantee of ¥44,968 million to the insurance business operated by MSI Corporate Capital Limited, a subsidiary of the Company.

(Arrangements similar to guarantees)

The Company has net worth maintenance agreements with Mitsui Sumitomo Primary Life Insurance Company, Limited (“MSPL”), a subsidiary of MS&AD Insurance Group Holdings, Inc., and seven foreign subsidiaries of the Company. Under these agreements, the Company’s funding and other obligations to these companies are triggered if each of these companies falls into a situation where their net worth falls short of a predetermined level or they are unable to maintain adequate liquidity to meet their obligations. Under the agreement with MSPL, MS&AD Insurance Group Holdings, Inc. is also liable for the obligations to MSPL. The aggregate amounts of total liabilities and total assets of these companies were ¥4,376,730 million (including Policy liabilities of ¥4,267,612 million) and ¥4,676,066 million, respectively.

None of these companies were in the triggering situation mentioned above as of March 31, 2014.

March 31, 2015

(Guarantees)

The Company provides a guarantee of ¥38,641 million to the insurance business operated by MSI Corporate Capital Limited, a subsidiary of the Company.

(Arrangements similar to guarantees)

The Company has net worth maintenance agreements with seven foreign subsidiaries of the Company. Under these agreements, the Company provides a guarantee on liabilities under insurance policies of these subsidiaries. The aggregate amount of Policy liabilities of these

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

companies was ¥285,482 million as of March 31, 2015.

7. The carrying amounts of equity investments in affiliates are as follows:

	(Yen in millions)	
	March 31, 2014	March 31, 2015
Stock	433,491	432,973
Capital	16,597	18,296

8. The amounts of pledged assets are as follows:

	(Yen in millions)	
	March 31, 2014	March 31, 2015
Investments in securities	81,073	80,420

(Note) The amounts in the above table 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 are as follows:

	(Yen in millions)	
	March 31, 2014	March 31, 2015
Gross outstanding claims (except for (b))	678,211	673,275
Reinsurance recoverable on unpaid losses	77,693	85,702
Net (a)	600,518	587,573
Outstanding claims relating to earthquakes and compulsory automobile liability insurance (b)	51,792	53,340
Total (a) + (b)	652,310	640,913

- (2) Details of Underwriting reserves are as follows:

	(Yen in millions)	
	March 31, 2014	March 31, 2015
Gross ordinary underwriting reserves	1,186,784	1,248,772
Reinsurance recoverable on underwriting reserves	62,812	65,825
Net (a)	1,123,971	1,182,947
Gross refund reserves	1,541,330	1,466,277
Reinsurance recoverable on refund reserves	6	5
Net (b)	1,541,323	1,466,271
Other underwriting reserves (c)	627,924	665,569
Total (a) + (b) + (c)	3,293,219	3,314,789

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

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

	March 31, 2014	March 31, 2015
Net assets per share (in Yen)	932.50	1,233.79
Amounts deducted from net assets (Yen in millions)	-	-
Outstanding common stock (in thousands of shares)	1,404,402	1,404,402

11. The amounts of assets received as collateral under resale agreements and reinsurance transactions which the Company has the right to sell or repledge are as follows:

	March 31, 2014	March 31, 2015
Commercial papers	18,998	23,997
Securities	-	4,751

(Note) All commercial papers and securities above are held by the Company.

12. Guarantees on transactions conducted by a limited partnership entity are as follows:

March 31, 2014

The Company provides guarantees on transactions conducted by a limited partnership entity. Aggregate net present value of these transactions was ¥170,034 million in a negative liability position as of March 31, 2014. This amount was not included in Customers' liabilities under acceptances and guarantees or Acceptances and guarantees since there was no substantial exposure.

March 31, 2015

The Company provides guarantees on transactions conducted by a limited partnership entity. Aggregate net present value of these transactions was ¥271,594 million in a negative liability position as of March 31, 2015. This amount was not included in Customers' liabilities under acceptances and guarantees or Acceptances and guarantees since there was no substantial exposure.

13. The unutilized balance of commitment lines to third parties are as follows:

(Yen in millions)	
March 31, 2014	March 31, 2015
640	295

14. "Subsidiary", "Associate", and "Affiliate" 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, 2014 and 2015

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

	(Yen in millions)	
	For the year ended March 31, 2014	For the year ended March 31, 2015
Income	55,462	53,050
Expenses	73,897	56,740

2.
(1) Details of Net premiums written are as follows:

	(Yen in millions)	
	For the year ended March 31, 2014	For the year ended March 31, 2015
Gross premiums written	1,709,307	1,781,753
Less reinsurance premiums ceded	322,773	337,577
Net	1,386,533	1,444,176

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

	(Yen in millions)	
	For the year ended March 31, 2014	For the year ended March 31, 2015
Gross claims paid	1,069,052	1,011,039
Less claim recoveries from reinsurance ceded	245,387	200,186
Net	823,665	810,853

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

	(Yen in millions)	
	For the year ended March 31, 2014	For the year ended March 31, 2015
Commissions and collection expenses paid	266,660	284,220
Less reinsurance commissions received	27,625	30,407
Net	239,034	253,813

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

	(Yen in millions)	
	For the year ended March 31, 2014	For the year ended March 31, 2015
Gross provision for outstanding claims (except for (b))	(62,496)	(4,935)
Less reinsurance recoverable on unpaid losses	(69,856)	8,008
Net (a)	7,359	(12,944)
Provision for/(reversal of) outstanding claims relating to earthquakes and compulsory automobile liability insurance (b)	1,081	1,547
Total (a) + (b)	8,441	(11,397)

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, 2014	For the year ended March 31, 2015
Gross provision for ordinary underwriting reserves	57,393	61,988
Less reinsurance recoverable on underwriting reserves	9,562	3,012
Net (a)	47,830	58,975
Provision for/(reversal of) refund reserves	(88,346)	(75,052)
Less reinsurance recoverable on refund reserves	0	(0)
Net (b)	(88,347)	(75,051)
Reversal of other underwriting reserves (c)	(4,054)	37,645
Total (a) + (b) + (c)	(44,570)	21,569

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

	(Yen in millions)	
	For the year ended March 31, 2014	For the year ended March 31, 2015
Interest on deposits and savings	1,376	1,178
Interest on call loans	46	29
Interest on receivables under resale agreements	77	39
Interest on monetary claims bought	1,190	963
Interest and dividends income on investments in securities	94,708	95,382
Interest on loans	8,542	7,522
Rental income on properties	6,183	5,387
Other interest and dividends income	135	114
Total	112,260	110,618

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, 2014	For the year ended March 31, 2015
(157)	1,064

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

(Yen in millions)	
For the year ended March 31, 2014	For the year ended March 31, 2015
6,975	7,031

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, 2014	For the year ended March 31, 2015
Net income/(loss) per share (in Yen)	41.33	63.45
Net income/(loss) attributable to common stock (Yen in millions)	58,047	89,114
Average outstanding common shares during the year (in thousands of shares)	1,404,402	1,404,402

(Notes)

1. Since there was no potential dilution for the year ended March 31, 2014, diluted net income/(loss) per share is not disclosed.
2. Since there was no potential dilution for the year ended March 31, 2015, diluted net income/(loss) per share is not disclosed.

5. Details of Other extraordinary income are as follows:

For the year ended March 31, 2015

In accordance with the reorganization by function that was agreed among MS&AD Insurance Group Holdings, Inc., the parent company of the Company, and its insurance subsidiaries including the Company, the Company received cash or recognized receivable from other MS&AD insurance group companies in consideration for the transfer of certain future insurance businesses.:

(Yen in millions)		
Counterparty	Description of transferred business	Amount of consideration
Mitsui Sumitomo Aioi Life Insurance Co., Ltd.	Long-term care and medical insurance contracts newly written on and after April 1, 2014	1,000
Aioi Nissay Dowa Insurance Co., Ltd.	Insurance contracts through motor channel agencies newly written on and after October 1, 2014	400
	Insurance contracts newly written at certain sales offices on and after October 1, 2014	400

6. Details of Other extraordinary losses are as follows:

For the year ended March 31, 2014

Other extraordinary losses represent costs related to the reorganization by function that was agreed among MS&AD Insurance Group Holdings, Inc., the parent company of the Company, and insurance subsidiaries within the Group including the Company.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

7. Reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	(%)	
	For the year ended March 31, 2014	For the year ended March 31, 2015
Statutory income tax rate	33.2	30.7
Increase/(decrease) from:		
Effects of changes in income tax rate	8.8	11.0
Tax exempted dividends income	(10.1)	(6.7)
Increase/(decrease) in valuation allowance	(2.3)	(0.9)
Non-deductible expenses such as entertainment expenses	0.7	0.4
Others	1.0	0.7
Effective income tax rate	31.3	35.2

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

8. Related party transactions are as follows:

For the year ended March 31, 2014

Category	Company name	Voting rights (%)	Relationship	Transactions	Amounts (Yen in millions)	Account	Balances (Yen in millions)
Affiliate	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	Debt guarantee related to transaction with third parties	105,730	-	-

MS&AD Loan Services Company Limited ("MS&AD Loan Services") provides the guarantee mainly for the Company's housing loans that are executed to third party customers. Transaction amounts represent guaranteed amounts outstanding as of March 31, 2014.

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

The Company and MS&AD Loan Services have a comprehensive guarantee contract where the Company receives guarantee services from MS&AD Loan Services for loans provided by the Company to third party debtors. Terms and conditions of the guarantee contract are determined based on each type of the loans to third parties.

For the year ended March 31, 2015

Category	Company name	Voting rights (%)	Relationship	Transactions	Amounts (Yen in millions)	Account	Balances (Yen in millions)
Subsidiary of the parent company	MS&AD Loan Services Company, Limited	-	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	Debt guarantee related to transactions with third parties	99,579	-	-

MS&AD Loan Services Company Limited ("MS&AD Loan Services") provides the guarantee mainly for the Company's housing loans that are executed to third party customers. Transaction amounts represent guaranteed amounts outstanding as of March 31, 2015.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

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

The Company and MS&AD Loan Services have a comprehensive guarantee contract where the Company receives guarantee services from MS&AD Loan Services for loans provided by the Company to third party debtors. Terms and conditions of the guarantee contract are determined based on each type of the loans to third parties.

9. "Parent company", "Subsidiary" and "Affiliate" 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
and its consolidated subsidiaries

Consolidated Financial Statements
For the years ended March 31, 2014 and 2015

(With Independent Auditor's Report Thereon)

Yuji Ito
Director, Managing Executive Officer
Mitsui Sumitomo Insurance Company, Limited

22 JUN 2015

Masahiro Matsumoto
Director, Managing Executive Officer
Mitsui Sumitomo Insurance Company, Limited

22 JUN 2015



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 of March 31, 2014 and 2015, 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 a summary of significant accounting policies and other explanatory information.

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 of March 31, 2014 and 2015, 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 22, 2015
Tokyo, Japan

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

As of March 31, 2014 and 2015

	2014	2015
	(Yen in millions)	
<u>Assets</u>		
Assets		
Cash, deposits and savings	¥ 382,389	426,997
Call loans	50,000	40,000
Receivables under resale agreements	23,997	36,497
Monetary claims bought	72,859	102,423
Money trusts	10,510	13,048
Investments in securities	4,646,523	5,445,215
Loans	538,241	498,658
Tangible fixed assets:		
Land	95,154	93,498
Buildings	141,514	136,297
Construction in progress	2,902	1,972
Other tangible fixed assets	14,717	13,359
Total tangible fixed assets	<u>254,289</u>	<u>245,128</u>
Intangible fixed assets:		
Software	40,570	32,373
Goodwill	53,633	49,975
Other intangible fixed assets	4,517	23,156
Total intangible fixed assets	<u>98,721</u>	<u>105,504</u>
Other assets	530,860	514,889
Deferred tax assets	5,432	5,306
Customers' liabilities under acceptances and guarantees	46,000	49,000
Bad debt reserve	<u>(18,390)</u>	<u>(8,654)</u>
Total assets	¥ <u>6,641,435</u>	<u>7,474,016</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets (Continued)

	2014	2015
	(Yen in millions)	
<u>Liabilities and Net Assets</u>		
Liabilities		
Policy liabilities:		
Outstanding claims	¥ 894,619	909,232
Underwriting reserves	<u>3,416,524</u>	<u>3,457,475</u>
Total policy liabilities	<u>4,311,143</u>	<u>4,366,708</u>
Bonds issued	176,185	176,188
Other liabilities	402,617	481,759
Liabilities for pension and retirement benefits	143,603	123,541
Reserve for retirement benefits for officers	1,070	912
Accrued bonuses for employees	13,150	15,338
Reserves under the special laws:		
Reserve for price fluctuation	<u>19,731</u>	<u>60,519</u>
Total reserves under the special laws	<u>19,731</u>	<u>60,519</u>
Deferred tax liabilities	104,907	265,231
Acceptances and guarantees	<u>46,000</u>	<u>49,000</u>
Total liabilities	<u>5,218,411</u>	<u>5,539,199</u>
Net Assets		
Shareholders' equity:		
Common stock	139,595	139,595
Capital surplus	93,107	86,722
Retained earnings	<u>291,919</u>	<u>366,290</u>
Total shareholders' equity	<u>524,622</u>	<u>592,608</u>
Accumulated other comprehensive income/(loss):		
Net unrealized gains/(losses) on investments in securities	819,141	1,182,736
Net deferred gains/(losses) on hedges	23,430	32,140
Foreign currency translation adjustments	33,073	89,349
Accumulated actuarial gains/(losses) on retirement benefits	<u>(2,397)</u>	<u>10,030</u>
Total accumulated other comprehensive income/(loss)	<u>873,247</u>	<u>1,314,256</u>
Minority interests	<u>25,153</u>	<u>27,952</u>
Total net assets	<u>1,423,024</u>	<u>1,934,817</u>
Total liabilities and net assets	¥ <u>6,641,435</u>	<u>7,474,016</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, 2014 and 2015

	2014	2015
	(Yen in millions)	
<u>Ordinary income and expenses</u>		
Ordinary income:		
Underwriting income:		
Net premiums written	¥ 1,604,360	1,696,608
Deposit premiums from policyholders	113,037	104,342
Investment income on deposit premiums from policyholders	41,343	39,981
Life insurance premiums	3,912	6,893
Reversal of outstanding claims	1,200	9,497
Reversal of underwriting reserves	38,834	-
Other underwriting income	<u>2,973</u>	<u>7,412</u>
Total underwriting income	<u>1,805,663</u>	<u>1,864,735</u>
Investment income:		
Interest and dividends income	118,064	115,532
Investment gains on money trusts	295	1,268
Gains on sales of securities	60,762	95,022
Gains on redemption of securities	1,806	1,699
Gains on derivative transactions	6,224	-
Other investment income	3,060	11,090
Transfer of investment income on deposit premiums from policyholders	<u>(41,343)</u>	<u>(39,981)</u>
Total investment income	<u>148,870</u>	<u>184,632</u>
Other ordinary income:		
Gains on equity method investments	-	1,302
Other ordinary income	<u>5,400</u>	<u>8,333</u>
Total other ordinary income	<u>5,400</u>	<u>9,635</u>
Total ordinary income	<u>1,959,933</u>	<u>2,059,003</u>
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	939,509	928,362
Loss adjustment expenses	83,585	95,470
Commissions and collection expenses	267,632	287,874
Maturity refunds to policyholders	238,511	210,769
Dividends to policyholders	594	796
Life insurance claims	6	11
Provision for underwriting reserves	-	29,205
Other underwriting expenses	<u>2,062</u>	<u>2,274</u>
Total underwriting expenses	<u>1,531,902</u>	<u>1,554,763</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income (Continued)

	2014	2015
	(Yen in millions)	
Investment expenses:		
Losses on sales of securities	¥ 2,836	2,256
Impairment losses on securities	796	3,782
Losses on redemption of securities	1,486	826
Losses on derivative transactions	-	3,988
Other investment expenses	<u>5,783</u>	<u>7,340</u>
Total investment expenses	<u>10,902</u>	<u>18,195</u>
Operating expenses and general and administrative expenses	<u>273,641</u>	<u>280,109</u>
Other ordinary expenses:		
Interest expense	7,176	5,999
Provision for bad debts	10,827	-
Losses on bad debts	35	20
Losses on equity method investments	9,606	-
Other ordinary expenses	<u>2,853</u>	<u>799</u>
Total other ordinary expenses	<u>30,499</u>	<u>6,819</u>
Total ordinary expenses	<u>1,846,946</u>	<u>1,859,888</u>
Ordinary profit/(loss)	<u>112,987</u>	<u>199,114</u>
<u>Extraordinary income and losses</u>		
Extraordinary income:		
Gains on sales of fixed assets	4,392	8,817
Other extraordinary income	-	1,800
Total extraordinary income	<u>4,392</u>	<u>10,617</u>
Extraordinary losses:		
Losses on sales of fixed assets	2,684	2,543
Impairment losses on fixed assets	240	1,400
Provision for reserves under the special laws:		
Provision for reserve for price fluctuation	<u>14,580</u>	<u>40,788</u>
Total provision for reserves under the special laws	<u>14,580</u>	<u>40,788</u>
Other extraordinary losses	<u>4,182</u>	<u>-</u>
Total extraordinary losses	<u>21,688</u>	<u>44,732</u>
Income/(loss) before income taxes and minority interests	<u>95,691</u>	<u>164,999</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income (Continued)

Income taxes - current	¥	8,520	16,408
Income taxes - deferred		<u>26,213</u>	<u>40,635</u>
Total income taxes		<u>34,733</u>	<u>57,043</u>
Income/(loss) before minority interests		<u>60,958</u>	<u>107,956</u>
Minority interests		<u>2,500</u>	<u>2,722</u>
Net income/(loss)	¥	<u>58,457</u>	<u>105,233</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, 2014 and 2015

		2014	2015
		(Yen in millions)	
Income/(loss) before minority interests	¥	60,958	107,956
Other comprehensive income/(loss):			
Net unrealized gains/(losses) on investments in securities		122,336	362,414
Net deferred gains/(losses) on hedges		(2,998)	8,709
Foreign currency translation adjustments		63,221	51,503
Actuarial gains/(losses) on retirement benefits		-	12,432
Share of other comprehensive income/(loss) of equity method investments		594	7,885
Total other comprehensive income/(loss)		<u>183,154</u>	<u>442,946</u>
Total comprehensive income/(loss)	¥	<u>244,113</u>	<u>550,902</u>
Allocation:			
Comprehensive income/(loss) attributable to shareholders of the parent	¥	238,629	546,245
Comprehensive income/(loss) attributable to minority interests		5,483	4,657

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, 2014 and 2015

2014

(Yen in millions)

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Total shareholders' equity
Beginning balance	¥ 139,595	93,107	294,854	527,558
Cumulative effect of changing accounting policies			(36,157)	(36,157)
Beginning balance (adjusted)	139,595	93,107	258,697	491,400
Changes for the year:				
Dividends paid			(26,097)	(26,097)
Net income/(loss)			58,457	58,457
Changes in scope of application of equity method			862	862
Changes in equity resulted from transactions with minority shareholders				-
Net changes of items other than shareholders' equity				
Total changes for the year	-	-	33,222	33,222
Ending balance	¥ 139,595	93,107	291,919	524,622

	Accumulated other comprehensive income/(loss)					Minority interests	Total net assets
	Net unrealized gains/(losses) on investments in securities	Net deferred gains/(losses) on hedges	Foreign currency translation adjustments	Accumulated actuarial gains/(losses) on retirement benefits	Total accumulated other comprehensive income/(loss)		
Beginning balance	¥ 696,390	26,428	(26,332)	-	696,486	20,913	1,244,958
Cumulative effect of changing accounting policies					-		(36,157)
Beginning balance (adjusted)	696,390	26,428	(26,332)	-	696,486	20,913	1,208,800
Changes for the year:							
Dividends paid							(26,097)
Net income/(loss)							58,457
Changes in scope of application of equity method							862
Changes in equity resulted from transactions with minority shareholders							-
Net changes of items other than shareholders' equity	122,750	(2,998)	59,405	(2,397)	176,760	4,240	181,001
Total changes for the year	122,750	(2,998)	59,405	(2,397)	176,760	4,240	214,223
Ending balance	¥ 819,141	23,430	33,073	(2,397)	873,247	25,153	1,423,024

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Changes in Net Assets (Continued)

2015

(Yen in millions)

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Total shareholders' equity
Beginning balance	¥ 139,595	93,107	291,919	524,622
Cumulative effect of changing accounting policies		(6,363)	3,935	(2,427)
Beginning balance (adjusted)	139,595	86,744	295,855	522,195
Changes for the year:				
Dividends paid			(34,798)	(34,798)
Net income/(loss)			105,233	105,233
Changes in scope of application of equity method				-
Changes in equity resulted from transactions with minority shareholders		(21)		(21)
Net changes of items other than shareholders' equity				
Total changes for the year	-	(21)	70,435	70,413
Ending balance	¥ 139,595	86,722	366,290	592,608

	Accumulated other comprehensive income/(loss)					Minority interests	Total net assets
	Net unrealized gains/(losses) on investments in securities	Net deferred gains/(losses) on hedges	Foreign currency translation adjustments	Accumulated actuarial gains/(losses) on retirement benefits	Total accumulated other comprehensive income/(loss)		
Beginning balance	¥ 819,141	23,430	33,073	(2,397)	873,247	25,153	1,423,024
Cumulative effect of changing accounting policies					-		(2,427)
Beginning balance (adjusted)	819,141	23,430	33,073	(2,397)	873,247	25,153	1,420,596
Changes for the year:							
Dividends paid							(34,798)
Net income/(loss)							105,233
Changes in scope of application of equity method							-
Changes in equity resulted from transactions with minority shareholders							(21)
Net changes of items other than shareholders' equity	363,594	8,709	56,275	12,428	441,008	2,798	443,807
Total changes for the year	363,594	8,709	56,275	12,428	441,008	2,798	514,220
Ending balance	¥ 1,182,736	32,140	89,349	10,030	1,314,256	27,952	1,934,817

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, 2014 and 2015

	2014	2015
	(Yen in millions)	
I. Cash flows from operating activities:		
Income/(loss) before income taxes and minority interests	¥ 95,691	164,999
Adjustments for:		
Depreciation	25,702	27,056
Impairment losses on fixed assets	240	1,400
Amortization of goodwill	4,140	4,102
Increase/(decrease) in outstanding claims	(3,230)	(8,144)
Increase/(decrease) in underwriting reserves	(38,760)	29,024
Increase/(decrease) in bad debt reserve	10,797	(9,860)
Increase/(decrease) in reserve for retirement benefits for officers	(186)	(158)
Increase/(decrease) in accrued bonuses for employees	765	1,484
Increase/(decrease) in liabilities for pension and retirement benefits	(285)	(4,913)
Increase/(decrease) in reserve for price fluctuation	14,580	40,788
Interest and dividends income	(118,064)	(115,532)
Losses/(gains) on investments in securities	(57,449)	(89,855)
Losses/(gains) on derivative transactions	(6,224)	3,988
Interest expense	7,176	5,999
Foreign exchange losses/(gains)	(116)	(9,195)
Losses/(gains) on disposal of tangible fixed assets	(1,744)	(6,273)
Losses/(gains) on equity method investments	9,606	(1,302)
Decrease/(increase) in other assets	81,731	34,889
Increase/(decrease) in other liabilities	9,315	64,675
Other, net	9,576	(7,232)
Subtotal	43,262	125,942
Interest and dividends received	113,039	112,692
Interest paid	(7,195)	(5,991)
Income taxes refunded/(paid)	(6,060)	(12,560)
Net cash provided by/(used in) operating activities (a)	143,046	220,082

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

	2014	2015
	(Yen in millions)	
II. Cash flows from investing activities:		
Net decrease/(increase) in deposits and savings	¥ 3,817	8,866
Purchase of monetary claims bought	(39,490)	(5,998)
Proceeds from sales and redemption of monetary claims bought	53,465	14,494
Purchase of money trusts	(815)	(10,015)
Proceeds from sales of money trusts	13	8,949
Purchase of securities	(1,058,434)	(1,033,498)
Proceeds from sales and redemption of securities	850,044	818,887
Investment in loans	(100,386)	(97,186)
Collection of loans	135,168	135,460
Other, net	3,524	(5,214)
Subtotal (b)	(153,093)	(165,254)
(a + b)	(10,047)	54,828
Acquisition of tangible fixed assets	(19,631)	(10,587)
Proceeds from sales of tangible fixed assets	7,972	12,270
Acquisition of intangible fixed assets	(10,537)	(7,053)
Other, net	1,366	243
Net cash provided by/(used in) investing activities	(173,923)	(170,381)
III. Cash flows from financing activities:		
Proceeds from borrowings	50,000	-
Redemption of bonds	(65,000)	-
Dividends paid to minority shareholders	(1,172)	(1,409)
Other, net	(1,389)	(1,435)
Net cash provided by/(used in) financing activities	(17,561)	(2,845)
IV. Effect of exchange rate changes on cash and cash equivalents	20,227	19,874
V. Net increase/(decrease) in cash and cash equivalents	(28,211)	66,730
VI. Cash and cash equivalents at beginning of year	426,068	397,857
VII. Increase in cash and cash equivalents due to merger with unconsolidated subsidiaries	-	1,598
VIII. Cash and cash equivalents at end of year	¥ 397,857	466,186

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, 2014 and 2015

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

"Subsidiary" and "Associate" appearing in the accompanying consolidated financial statements and notes thereto refer to those defined in Article 2 of the Corporate Accounting Regulations.

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.

(2) Unconsolidated subsidiaries

Major unconsolidated subsidiary is as follows:

MSK Anshin Station Company, Limited

Certain subsidiaries including the above subsidiary are not consolidated, as they are not considered to affect, in all material aspects, the consolidated financial conditions and business performance, 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 associates accounted for under the equity method

8 companies

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

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

(2) Other affiliates, including unconsolidated subsidiaries and associates (e.g. MSK Anshin Station Company, Limited and Hong Leong MSIG Takaful Berhad), are stated at cost as their effects on consolidated net income and retained earnings are not considered material, individually and in aggregate.

4. Fiscal year of consolidated subsidiaries

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

The Company makes 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 included in Cash, deposits and savings and Monetary claims bought as set forth in the Enforcement Regulations of the Japanese Insurance Business Act)

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

(ii) Investments in unconsolidated subsidiaries and associates 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 without practically determinable fair value) 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 without practically determinable fair value are valued at cost using the moving average method.

(v) Money trusts which are specifically managed for the Company for trading purposes are valued at their year-end market prices. Money trusts which are specifically managed for the Company, other than money trusts held for trading purposes and money trusts held to maturity, are valued on the same basis as available-for-sale securities.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

(2) Valuation policies and methods of derivative financial instruments

All derivative financial instruments, except for those such as foreign exchange forward contracts to which the allocation method is applied and interest rate swaps to which the exceptional method is applied, are valued at fair value.

(3) Depreciation methods of significant depreciable assets

- (i) Depreciation of tangible fixed assets held by the Company and its domestic consolidated subsidiaries is computed using the declining-balance method, except for buildings (excluding fixtures) acquired on or after April 1, 1998, to which the straight-line method is applied.

Depreciation of tangible fixed assets held by foreign consolidated subsidiaries is mainly computed using the straight-line method.

- (ii) Intangible fixed assets are amortized by the straight-line method. Capitalized software for internal use is amortized by the straight-line method over its estimated useful life.

(4) Accounting policies for significant reserves

- (i) Bad debt reserve

For the Company, bad debt reserve is established under the internal standards 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 outstanding balance 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 outstanding balance remaining after deducting the resale value of collateral, the amount collectible through guarantees and the amount expected to be repaid by the debtors considering their overall ability to pay.

For loans other than those described above, bad debt reserve is calculated by multiplying the outstanding balances by the historical bad debt ratios.

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

For domestic consolidated subsidiaries, bad debt reserve is established under their internal standards for self-assessment of assets and policies for write-off and provision similar to those of the Company.

For foreign consolidated subsidiaries, bad debt reserve is established based on the assessment of collectability of individual receivables.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

(ii) 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 up to the year ended March 31, 2005, the date in which the retirement benefits plans for officers were terminated, is established based on the estimated amounts to be paid at the year-end to provide for future retirement benefits (including pension) for officers and operating officers of the Company.

(iii) Accrued bonuses for employees

Accrued bonuses for employees are determined based on the estimated amounts to be paid at the year-end to provide for future bonuses for employees and operating officers.

(iv) Reserve for price fluctuation

For the Company, the reserve for price fluctuation is recognized under Article 115 of the Insurance Business Act to provide for possible losses arising from price fluctuation of investment assets such as equity securities.

(5) Accounting for retirement benefits

(i) Attribution method of retirement benefits over the service period

In computing retirement benefit obligations, the estimated retirement benefits are attributed to the periods up to the current year using the plan's benefit formula.

(ii) Accounting for actuarial gains and losses and past service costs

Actuarial gains and losses are amortized, commencing from the following year, using the straight-line method over a certain number of years (primarily 10 years) that do not exceed the expected average remaining service period of employees at the time of occurrence.

Past service costs are amortized using the straight-line method over a certain number of years (4 years) that do not exceed the average remaining service period of employees at the time of occurrence.

(6) Translation of foreign currency assets and liabilities

Foreign currency monetary assets and liabilities 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 shareholders' 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 translations are included in Foreign currency translation adjustments and Minority interests in Net Assets.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

(7) Accounting for consumption taxes

Consumption taxes received or paid by the Company and its domestic consolidated subsidiaries are not included in income or expenses, except for those relating to Loss adjustment expenses and Operating expenses and general and administrative expenses incurred by the Company. Consumption taxes excluded from income and expenses are recorded at the net amount on the balance sheet.

Non-deductible consumption taxes are recognized as expenses for the period, except for those relating to the purchase of depreciable fixed assets which are not charged to expenses but deferred as Other assets and amortized over a period of five years on a straight-line basis.

(8) Hedge accounting

Under accounting principles generally accepted in Japan ("Japanese GAAP"), several methodologies are allowed for hedge accounting. Two fundamental approaches are the deferred hedge method and the fair value hedge method. Under the deferred hedge method, gains and losses on changes in 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 items, gains and losses on changes in fair value of the hedging instruments are recognized in earnings together with the corresponding gains and losses on the hedged items attributable to the risks being hedged.

In addition, for certain derivative instruments, alternative treatments are permitted under Japanese GAAP. Assets and liabilities denominated in foreign currencies and hedged by foreign exchange forward contracts or currency swaps can be accounted for by the allocation method. Under this method, the foreign exchange forward contracts and currency swaps used as hedging instruments are not measured at fair value since gains and losses on the derivatives are assumed to be offset with changes in fair value of the corresponding hedged items, and hedged items are translated at the foreign exchange rates that are stipulated in the foreign exchange forward contracts or currency swaps (hedging instruments). 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 the hedged items (the exceptional method).

For the Company, gains and losses on equity forward contracts used for hedging risks of variability in the fair value of investments in equity securities are accounted for under the deferred hedge method. Gains and losses on currency swap contracts and certain foreign exchange forward contracts used for hedging risks of variability in foreign exchange rates on foreign currency bonds and other foreign currency assets are accounted for under the deferred hedge method, the fair value hedge method or the allocation method. Gains and losses on currency swap contracts used for hedging risks of variability in foreign exchange rates on foreign currency bonds issued by the Company are accounted for under the allocation method. Gains and losses on interest rate swap contracts used for hedging risks of variability in the cash flows of loans, bonds and borrowings arising from fluctuations in interest rates are accounted for under the deferred hedge method or the exceptional method when they meet certain criteria.

Hedge effectiveness is assessed quarterly by comparing cumulative fluctuations in fair value

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

or cash flows of the hedged items and hedging instruments for the periods from the respective start dates of the hedges to the assessment dates. When the hedged items and the hedging instruments are highly and clearly interrelated or when the interest rate swap transactions meet the criteria for application of the exceptional method, hedge effectiveness is not assessed.

Certain interest rate swap contracts used for the ALM (Asset and Liability Management) to ensure adequate control of the risks of interest rate variability are accounted for under the deferred hedge method and assessed for hedge effectiveness in accordance with the Industry Audit Committee Report No. 26, "Accounting and Auditing Treatment of Application of the Accounting Standard for Financial Instruments in the Insurance Industry" (issued by the Japanese Institute of Certified Public Accountants on September 3, 2002). The hedge effectiveness of interest rate swaps used for the ALM is evaluated on a portfolio basis, based on whether upward and downward movements in value of the hedged items and the hedging instruments offset each other within a certain range, in respect to changes in the interest rates.

6. Goodwill

Goodwill is amortized using the straight-line method over 20 years. Insignificant amounts of goodwill are charged to expenses as incurred.

7. Changes in accounting policies

The Company has adopted the Accounting Standard for Business Combinations (ASBJ Statement No. 21 issued on September 13, 2013, the "Business Combination Accounting Standard"), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22 issued on September 13, 2013, the "Consolidation Accounting Standard") and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7 issued on September 13, 2013, the "Business Divestitures Accounting Standard"), effective from the beginning of the year commencing on or after April 1, 2014 (excluding the provisions stated in Paragraph 39 of the Consolidation Accounting Standard). In accordance with the adoption of these accounting standards, the Company has changed accounting policies as follows:

- (a) Transactions that result in changes in the Company's ownership interests in subsidiaries under control are accounted for as equity transactions, and any difference between the change in the minority interests and the fair value of the consideration paid or received is recognized in Capital surplus.
- (b) Acquisition-related costs are expensed in the period incurred.
- (c) For a business combination occurring on or after April 1, 2014, provisional amounts as to the purchase price allocation are recognized on the acquisition date and will be adjusted retrospectively, if required, based on information available after the acquisition date.

In accordance with the transitional treatments set forth in Paragraph 58-2(3) of the Business Combination Accounting Standard, Paragraph 44-5(3) of the Consolidation Accounting Standard and Paragraph 57-4(3) of the Business Divestitures Accounting Standard, the cumulative effect up to the beginning of the current year by adopting the new accounting policies retrospectively to all the previous periods is added to, or subtracted from, Capital surplus and Retained earnings.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

The effect of the changes on the beginning balance of the current year was a decrease in Goodwill of ¥2,427 million and Capital surplus of ¥6,363 million and an increase in Retained earnings of ¥3,935 million. Ordinary profit/(loss) and Income/(loss) before income taxes and minority interests increased by ¥182 million.

8. Cash and cash equivalents on the consolidated statement of cash flows

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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets

As of March 31, 2014 and 2015

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

	(Yen in millions)	
	March 31, 2014	March 31, 2015
Accumulated depreciation	286,617	287,319
Accelerated depreciation	15,119	14,649

(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 the sales of assets to be replaced by the acquired assets or receipts of governmental subsidies provided for the acquisition of the new assets. The total amounts deducted from the original acquisition cost of the qualifying properties as of March 31, 2014 and 2015 were ¥15,119 million and ¥14,649 million, respectively.

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

	(Yen in millions)	
	March 31, 2014	March 31, 2015
Investments in securities (Domestic stocks)	11,757	11,464
Investments in securities (Foreign securities)	131,482	145,471
Investments in securities (Other securities)	7,479	9,214

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

	(Yen in millions)	
	March 31, 2014	March 31, 2015
Loans to borrowers in bankruptcy	6	3
Overdue loans	2,762	370
Loans overdue for three months or more	529	501
Restructured loans	2,855	556
Total	6,153	1,432

(Note) Loans to borrowers in bankruptcy represent those, excluding any part of bad debts that have been written off, on which accrued interest receivables are not recognized because repayments of the principal or interest have been overdue for considerable periods and regarded uncollectible (hereinafter, 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 Act Enforcement Ordinance (Cabinet Order No.97, 1965).

Overdue loans represent loans not accruing interest excluding (a) loans to borrowers in bankruptcy and (b) loans that have been granted a grace period for interest payments in order to assist the debtors' operational restructuring or financial recovery.

Loans overdue for three months or more represent those of which the principal or interest has been past due for three months or more after the contractual due date for repayments of the principal or interest. The loans to borrowers in bankruptcy and

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

overdue loans are excluded from this category.

Restructured loans represent those which have been granted favorable terms for the benefit of the debtors, such as interest exemption or reduction, a grace period for interest payments, a grace period for principal repayments or forgiveness of debts for the purpose of the restructuring of, or support to the debtors in financial difficulty. The loans to borrowers in bankruptcy, overdue loans and loans overdue for three months or more are excluded from this category.

4. The amounts of pledged assets are as follows:

	(Yen in millions)	
	March 31, 2014	March 31, 2015
Investments in securities	117,640	121,280
Cash, deposits and savings	5,263	7,666
Tangible fixed assets	285	-

(Note) The amounts in the above table 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, 2014	March 31, 2015
	36,720	59,600

6. The amounts of assets received as collateral under resale agreements or reinsurance transactions which the Company has the right to sell or repledge are as follows:

	(Yen in millions)	
	March 31, 2014	March 31, 2015
Commercial papers	18,998	23,997
Securities	-	4,751

(Note) All commercial papers and securities in the above table have not been resold or repledged, and are held by the Company.

7. Guarantees on transactions conducted by a limited partnership entity are as follows:

March 31, 2014

The Company provides guarantees on transactions conducted by a limited partnership entity. Aggregate net present value of these transactions was ¥170,034 million in a negative liability position as of March 31, 2014. This amount was not included in Customers' liabilities under acceptances and guarantees or Acceptances and guarantees since there was no substantial exposure.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

March 31, 2015

The Company provides guarantees on transactions conducted by a limited partnership entity. Aggregate net present value of these transactions was ¥271,594 million in a negative liability position as of March 31, 2015. This amount was not included in Customers' liabilities under acceptances and guarantees or Acceptances and guarantees since there was no substantial exposure.

8. Guarantees and similar arrangements for consolidated subsidiaries and associates

March 31, 2014

The Company has a net worth maintenance agreement with Mitsui Sumitomo Primary Life Insurance Co., Ltd. ("MSPL"), a subsidiary of MS&AD Insurance Group Holdings, Inc. Under this agreement, the Company's funding and other obligations to MSPL are triggered if MSPL falls into a situation where its net worth falls short of a predetermined level or it is unable to maintain adequate liquidity to meet its obligations. Under this agreement, MS&AD Insurance Group Holdings, Inc. is also liable for the obligations to MSPL. The amounts of total liabilities and total assets of MSPL as of March 31, 2014 were ¥4,074,470 million (including Policy liabilities of ¥3,993,094 million) and ¥4,163,675 million, respectively. This agreement does not provide any guarantees for payments of MSPL's obligations.

MSPL was not in the triggering situation mentioned above as of March 31, 2014.

9. The unutilized balance of commitment lines to third parties are as follows:

(Yen in millions)	
March 31, 2014	March 31, 2015
640	295

10. Information on financial instruments

(1) Qualitative information on financial instruments

(i) Policy on financial instruments

The Company and its consolidated subsidiaries ("the Group") apply Asset and Liability Management (ALM) policies to maintain stability of investment returns, safety of assets and sufficient liquidity under an appropriate risk management framework to attain the sustainable growth of the net asset value. In addition, the Group is exposed to investment risks such as market risks and credit risks and manages those risks in accordance with the risk management policies of the Company and each group company.

The Group's cash inflows which mainly arise from insurance operations and investment activities are affected by changes in external environment such as occurrences of natural disasters and changes in financial market conditions. In order to enhance efficiency of funds operations and strengthen financial capacity under such changing conditions, the Company undertakes to raise funds through issuance of long-term or short-term corporate bonds or other financing methods as the needs arise.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

(ii) Details of financial instruments and associated risks

The Group's financial assets mainly consist of securities including domestic bonds, domestic stocks and foreign securities, loans and other financial instruments. Risks pertaining to investments include market risks, credit risks and market liquidity risks. Market risks arise from fluctuations in 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 represent the risks that investment assets are forced to be sold at extremely unfavorable prices under turmoil in the financial markets.

The Group utilizes derivative transactions represented by interest rate swaps, interest rate options, bond future contracts, equity index future contracts, currency swaps, foreign exchange forward contracts and currency options for the purpose of hedging risks such as fluctuations in interest rates, stock prices and foreign exchange rates. In addition, the Group utilizes credit derivatives and weather derivatives in order to generate investment returns with consideration given to the associated risks.

For details of derivative transactions to which hedge accounting is applied, please refer to "Significant Accounting Policies, 5. Accounting policies, (8) Hedge accounting".

In general, derivative transactions involve risks associated with fluctuations in fair value of derivative financial instruments, risks of nonperformance resulting from insolvency of counterparties and market liquidity risks. Derivative transactions utilized by the Group are also exposed to these risks. However, market risks associated with derivative transactions utilized for the purpose of hedging are mitigated, as changes in the fair value of hedged items and hedging instruments offset each other. In order to mitigate credit risks arising from the nonperformance of counterparties, most of the Group's derivative transactions are executed only with selected counterparties of high credit quality and diversified amongst various counterparties, and the Group utilizes legally enforceable master netting agreements with the counterparties.

(iii) Risk management structure relating to financial instruments

Financial instruments are traded and managed in accordance with the authorization and risk management policies established by the Group. At the Company, in order to exercise organizational checks and balances, the back-office and risk management departments are segregated from the trading department, and the risk management department monitors whether investment activities, types of instruments transacted, position limits, risk amounts, and loss controls are compliant with the policies. In addition, the risk management department assesses and analyzes risks related to financial instruments by monitoring the sensitivity of existing assets to changes in interest rates, stock prices and foreign exchange rates, including quantifying market and credit risks using the VaR (Value-at-Risk) method, and regularly reports the results to the Board of Directors.

a. Market risk management

The Group maintains and operates a risk management structure taking into account the characteristics of each financial instrument in accordance with its internal policies for market risk management. The trading and risk management departments at the Company establish policies that clarify operating procedures for each investment

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
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Notes to Consolidated Balance Sheets (Continued)

segment, and control market risks by setting position and loss limits based on risk characteristics.

b. Credit risk management

The Group maintains and operates a risk management structure in accordance with its internal policies for credit risk management. For loans at the Company, the trading and risk management departments maintain a credit risk management structure through credit screening, setting internal credit ratings and credit limits, managing credit information, requiring collaterals and guarantees where necessary, and resolving delinquent loans on an individual loan basis. For securities and derivative transactions at the Company, the trading and risk management departments manage credit risks of security issuers and derivative counterparties by regularly monitoring the credit information and fair values associated with the investment assets.

c. Funding liquidity risk management

The Group's treasury management oversees liquidity risk under ordinary or emergent funding conditions, and diversifies fundraising activities to secure and maintain liquidity in various environments. The Group manages funding liquidity risks by holding a sufficient amount of cash, savings and deposits, and highly liquid securities such as government bonds, and regularly monitoring their aggregate amounts in case of unexpected events like catastrophes and the deterioration of funding liquidity arising from turmoil in the financial markets.

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

The fair value of financial instruments is determined based on market prices and, when market prices are not available, based on reasonable estimates. In determining fair value, certain assumptions and methods are used, thus the fair value may differ if alternative assumptions are applied.

(2) Supplementary information on fair value of financial instruments

The following tables summarize the carrying amounts on the consolidated balance sheets and the fair values of financial instruments as of March 31, 2014 and 2015 together with their differences. The following tables exclude financial instruments in which the fair values are not practically determinable (see Note 2).

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Notes to Consolidated Balance Sheets (Continued)

March 31, 2014

(Yen in millions)

	Carrying amount	Fair value	Difference
(i) Cash, deposits and savings	382,389	382,411	21
(ii) Call loans	50,000	50,000	-
(iii) Receivables under resale agreements	23,997	23,997	-
(iv) Monetary claims bought	72,859	72,859	-
(v) Money trusts	10,510	10,510	-
(vi) Investments in securities: Available-for-sale securities	4,389,699	4,389,699	-
(vii) Loans	538,241		
Bad debt reserve (*1)	(3,362)		
	534,879	546,604	11,725
Total assets	5,464,336	5,476,084	11,747
Bonds issued	176,185	195,563	19,377
Total liabilities	176,185	195,563	19,377
Derivative transactions (*2):			
Hedge accounting not applied	1,690	1,690	-
Hedge accounting applied	30,995	30,995	-
Total derivative transactions	32,686	32,686	-

(*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.

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Notes to Consolidated Balance Sheets (Continued)

March 31, 2015

(Yen in millions)

	Carrying amount	Fair value	Difference
(i) Cash, deposits and savings	426,997	427,010	13
(ii) Call loans	40,000	40,000	-
(iii) Receivables under resale agreements	36,497	36,497	-
(iv) Monetary claims bought	102,423	102,423	-
(v) Money trusts	13,048	13,048	-
(vi) Investments in securities: Available-for-sale securities	5,178,745	5,178,745	-
(vii) Loans	498,658		
Bad debt reserve (*1)	(307)		
	498,351	509,062	10,710
Total assets	6,296,063	6,306,788	10,724
Bonds issued	176,188	190,561	14,372
Total liabilities	176,188	190,561	14,372
Derivative transactions (*2):			
Hedge accounting not applied	6,504	6,504	-
Hedge accounting applied	41,792	41,792	-
Total derivative transactions	48,296	48,296	-

(*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.

(Note 1) Determination of fair value of financial instruments

Assets

(i) Cash, deposits and savings

With regard to deposits and savings, the fair value is measured at the present value of the estimated future cash flows discounted at interest rates applicable to the same type of new deposits and savings based on duration. With regard to deposits and savings without maturities and short-term deposits and savings, the book value is deemed as the fair value due to their demand feature or short term duration.

(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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
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Notes to Consolidated Balance Sheets (Continued)

(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 counterparty financial institutions is deemed as the fair value.

(v) Money trusts

With regard to Money trusts, the price quoted by trustees 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 exchanges, independent price vendors or counterparty financial institutions.

(vii) Loans

With regard to floating rate loans, the book value approximates the fair value contingent on no significant changes in the credit conditions of the debtor, because the floating rates on the loans reflect market interest rates. With regard to fixed rate loans, for loans sorted by type, term and credit rating, the fair value is based on the present value of the estimated future cash flows discounted at market interest rates, such as yields on government bonds, plus a credit spread. The fair value of certain personal loans is determined at the net present value of the estimated future cash flows discounted at interest rates applicable to the same type of new loans.

With regard to policy loans, which do not have contractual maturities, as the loan amount is limited to the surrender value, the carrying amount approximates the fair value, considering their estimated repayment periods and interest rates.

With regard to loans to debtors that are legally or substantially bankrupt and loans to doubtful debtors, the carrying amount less bad debt reserve is deemed as the fair value, because the bad debt reserve is determined based on the present value of the estimated future cash flows or the value of the collateral and the amount collectible through guarantees.

Liabilities

Bonds issued

With regard to Bonds issued, prices included in "Reference Statistical Prices for OTC Bond Transactions" published by the Japan Securities Dealers Association or prices quoted by counterparty financial institutions is deemed as the fair value.

Derivative transactions

With regard to derivative transactions, the fair value is determined based on published forward exchange rates, closing prices at major exchanges, prices quoted by counterparty financial institutions or prices calculated by the option pricing model.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
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Notes to Consolidated Balance Sheets (Continued)

(Note 2) The carrying amounts of financial instruments in which the fair values are not practically determinable, which are not included in “(vi) Investments in securities” above, are as follows:

	(Yen in millions)	
	March 31, 2014	March 31, 2015
Unlisted stocks and other assets invested in unconsolidated subsidiaries and associates	150,719	166,150
Other unlisted stocks	55,715	46,451
Partnership investments comprised of unlisted stocks	50,388	53,868
Total	256,823	266,470

The fair value of the financial instruments in the above table is not disclosed because their fair value is not practically determinable due to lack of marketability or difficulties in reasonably estimating future cash flows.

11. 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, 2014	March 31, 2015
Carrying amount	36,734	39,034
Fair value	92,962	96,226

(Notes)

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

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Notes to Consolidated Balance Sheets (Continued)

12. Revision of the amounts of deferred tax assets and deferred tax liabilities due to changes in the income tax rate is as follows:

In accordance with the Act for Partial Revision of the Income Tax Act, etc. (Act No. 9 of 2015) promulgated on March 31, 2015, the corporate tax will be reduced from the year commencing on or after April 1, 2015.

As a result, the statutory income tax rate used to measure deferred tax assets and liabilities for temporary differences that are expected to reverse during the years commencing on or after April 1, 2015 will be reduced from the current tax rate of 30.7% to 28.8%.

The effect of the change in income tax rate was a decrease in Deferred tax assets of ¥5 million, Underwriting reserves of ¥820 million and Deferred tax liabilities of ¥16,859 million and an increase in Net unrealized gains/(losses) on investments in securities of ¥31,141 million and Income taxes-deferred of ¥15,462 million. As a result, Net income/(loss) decreased by ¥14,673 million.

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

	March 31, 2014	March 31, 2015
Net assets per share (in Yen)	995.34	1,357.77
Minority interests deducted from net assets (Yen in millions)	25,153	27,952
Outstanding common shares (in thousands of shares)	1,404,402	1,404,402

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
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Notes to Consolidated Statements of Income

For the years ended March 31, 2014 and 2015

1. Major components of business expenses are as follows:

	(Yen in millions)	
	For the year ended March 31, 2014	For the year ended March 31, 2015
Commission expenses	281,269	305,415
Salaries	135,960	144,708

(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 statements of income.

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

For the year ended March 31, 2014

(Yen in millions)					
Use	Category	Description	Impairment losses on fixed assets		
			Breakdown		
Investment properties	Land	A building for rent in Aomori	3	Land	3
Idle real estate and real estate for sale	Land and buildings	3 properties, including an office building in Chiba	237	Land	102
				Buildings	135

Fixed assets used for the insurance business operations are grouped as a single asset group by each insurance company. 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 changes in circumstances, such as a significant decline in the value of the asset (asset group) or a 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 by the amount in 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) and 2) the net sales value at disposition.

As the assets in the above table were to be disposed in the near future, ¥240 million of the aggregate difference between the carrying amounts of the assets in the above table and the recoverable amounts was recognized as impairment losses on fixed assets under Extraordinary losses.

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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
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Notes to Consolidated Statements of Income (Continued)

For the year ended March 31, 2015

(Yen in millions)

Use	Category	Description	Impairment losses on fixed assets	Breakdown	
Investment properties	Buildings	A building for rent in Aichi	39	Buildings	39
Idle real estate and real estate for sale	Land and buildings	3 properties, including a company house in Chiba	1,361	Land Buildings	1,003 357

Fixed assets used for the insurance business operations are grouped as a single asset group by each insurance company. 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 changes in circumstances, such as a significant decline in the value of the asset (asset group) or a 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 by the amount in 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) and 2) the net sales value at disposition.

As the assets in the above table were to be disposed in the near future, ¥1,400 million of the aggregate difference between the carrying amounts of the assets in the above table and the recoverable amounts was recognized as impairment losses on fixed assets under Extraordinary losses.

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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
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Notes to Consolidated Statements of Income (Continued)

3. Details of Other extraordinary income are as follows:

For the year ended March 31, 2015

In accordance with the reorganization by function that was agreed among MS&AD Insurance Group Holdings, Inc., the parent company of the Company, and its insurance subsidiaries including the Company, the Company received cash or recognized receivable from other MS&AD insurance group companies in consideration for the transfer of certain future insurance businesses.

(Yen in millions)		
Counterparty	Description of transferred business	Amount of consideration
Mitsui Sumitomo Aioi Life Insurance Co., Ltd.	Long-term care and medical insurance contracts newly written on and after April 1, 2014	1,000
Aioi Nissay Dowa Insurance Co., Ltd.	Insurance contracts through motor channel agencies newly written on and after October 1, 2014	400
	Insurance contracts newly written at certain sales offices on and after October 1, 2014	400

4. Details of Other extraordinary losses are as follows:

For the year ended March 31, 2014

Other extraordinary losses represent costs related to the reorganization by function that was agreed among MS&AD Insurance Group Holdings, Inc., the parent company of the Company, and its insurance subsidiaries including the Company.

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

	For the year ended March 31, 2014	For the year ended March 31, 2015
Net income/(loss) per share (in Yen)	41.62	74.93
Net income/(loss) attributable to common stock (Yen in millions)	58,457	105,233
Average outstanding common stock during the year (in thousands of shares)	1,404,402	1,404,402

(Notes)

1. Since there was no potential dilution for the year ended March 31, 2014, diluted net income/(loss) per share is not disclosed.
2. Since there was no potential dilution for the year ended March 31, 2015, diluted net income/(loss) per share is not disclosed.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
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Notes to Consolidated Statement of Comprehensive Income

For the years ended March 31, 2014 and 2015

1. Reclassification adjustments and income tax effects of other comprehensive income/(loss)

	2014	2015
	(Yen in millions)	
Net unrealized gains/(losses) on investments in securities:		
Gains/(losses) arising during the period	241,717	574,465
Reclassification adjustments	<u>(68,991)</u>	<u>(98,067)</u>
Before income tax effect adjustments	172,726	476,398
Income tax effects	<u>(50,390)</u>	<u>(113,984)</u>
Net unrealized gains/(losses) on investments in securities	<u>122,336</u>	<u>362,414</u>
Net deferred gains/(losses) on hedges:		
Gains/(losses) arising during the period	742	16,489
Reclassification adjustments	<u>(5,329)</u>	<u>(5,158)</u>
Before income tax effect adjustments	(4,586)	11,330
Income tax effects	<u>1,588</u>	<u>(2,620)</u>
Net deferred gains/(losses) on hedges	<u>(2,998)</u>	<u>8,709</u>
Foreign currency translation adjustments:		
Gains/(losses) arising during the period	63,038	50,820
Reclassification adjustments	<u>183</u>	<u>683</u>
Foreign currency translation adjustments	<u>63,221</u>	<u>51,503</u>
Actuarial gains/(losses) on retirement benefits:		
Gains/(losses) arising during the period	-	15,724
Reclassification adjustments	<u>-</u>	<u>1,765</u>
Before income tax effect adjustments	-	17,489
Income tax effects	<u>-</u>	<u>(5,057)</u>
Actuarial gains/(losses) on retirement benefits	<u>-</u>	<u>12,432</u>
Share of other comprehensive income/(loss) of equity method investments:		
Gains/(losses) arising during the period	1,142	9,404
Reclassification adjustments	<u>(547)</u>	<u>(1,518)</u>
Share of other comprehensive income/(loss) of equity method investments	<u>594</u>	<u>7,885</u>
Total other comprehensive income/(loss)	<u>183,154</u>	<u>442,946</u>

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
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Notes to Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2014 and 2015

For the year ended March 31, 2014

1. Type and number of issued stock and treasury stock

(in thousands of shares)

	Beginning balance	Increase	Decrease	Ending balance
Issued stock:				
Common stock	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 20, 2013	Common stock	Treasury Discount Bills	14,398	10.25	March 31, 2013	June 14, 2013
Board meeting held on November 19, 2013	Common stock	Treasury Discount Bills	11,699	8.33	-	November 22, 2013

(Note) Date of record is the date to determine shareholders who are entitled to receive dividends.

(2) Dividends declared effective after March 31, 2014 for which the date of record is in the year ended March 31, 2014

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, 2014	Common stock	Treasury Discount Bills	16,198	Retained earnings	11.53	March 31, 2014	June 6, 2014

(Note) Date of record is the date to determine shareholders who are entitled to receive dividends.

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

For the year ended March 31, 2015

1. Type and number of issued stock and treasury stock

(in thousands of shares)

	Beginning balance	Increase	Decrease	Ending balance
Issued stock:				
Common stock	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 20, 2014	Common stock	Treasury Discount Bills 16,198	11.53	March 31, 2014	June 6, 2014
Board meeting held on August 8, 2014	Common stock	MS&AD Loan Services Co., Ltd. Common stock 0	0.00	-	October 1, 2014
Board meeting held on November 19, 2014	Common stock	Treasury Discount Bills 18,599	13.24	-	November 20, 2014

(Note) Date of record is the date to determine shareholders who are entitled to receive dividends.

(2) Dividends declared effective after March 31, 2015 for which the date of record is in the year ended March 31, 2015

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 19, 2015	Common stock	Treasury Discount Bills 33,399	Retained earnings	23.78	March 31, 2015	May 26, 2015

(Note) Date of record is the date to determine shareholders who are entitled to receive dividends.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
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Notes to Consolidated Statements of Cash Flows

For the years ended March 31, 2014 and 2015

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

	(Yen in millions)	
	2014	2015
Cash, deposits and savings	382,389	426,997
Call loans	50,000	40,000
Receivables under resale agreements	23,997	36,497
Monetary claims bought	72,859	102,423
Money trusts	10,510	13,048
Investments in securities	4,646,523	5,445,215
Time deposits with original maturities of more than three months	(131,367)	(133,648)
Monetary claims bought other than cash equivalents	(45,782)	(36,950)
Money trust other than cash equivalents	(10,510)	(13,048)
Investments in securities other than cash equivalents	(4,600,762)	(5,414,349)
Cash and cash equivalents	397,857	466,186

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

