

mitsui sumitomo insurance company limited - new zealand branch

financial statements

for the year ended 31 march 2016

mitsui sumitomo insurance company limited - new zealand branch
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FOR THE YEAR ENDED 31 MARCH 2016

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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 2016.

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 2016

	Notes	2016 \$	2015 \$
Gross earned premium	1	7,445,483	10,289,774
Reinsurance expense	2	<u>(3,192,515)</u>	<u>(3,401,826)</u>
Net Premium Revenue		4,252,968	6,887,948
Claims Expense	4	(11,499,835)	6,239,500
Reinsurance and Other Recoveries	1	7,646,909	(6,401,521)
Net Claims Expense		(3,852,926)	(162,021)
Commissions		(406,582)	(400,391)
Reinsurance commission income	1	<u>306,349</u>	<u>438,897</u>
Net Acquisition Costs		(100,233)	38,506
Underwriting Result		299,809	6,764,433
Operating Expenses	3	(1,159,073)	(1,385,860)
Investment income	1	1,844,119	2,257,673
Sundry income	1	<u>1,293</u>	<u>501</u>
Net Profit Before Tax		986,148	7,636,747
Taxation expense	5	-	-
Net Profit for the Year		986,148	7,636,747
Other comprehensive income for the year		-	-
Total Comprehensive Income for the Year		986,148	7,636,747

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 2016

	2016 \$	2015 \$
Opening Head Office Balance	<u>41,691,604</u>	<u>34,054,857</u>
Net Profit for the Year	<u>986,148</u>	<u>7,636,747</u>
Total Comprehensive Income for the Year	986,148	7,636,747
Closing Head Office Balance	<u>42,677,752</u>	<u>41,691,604</u>

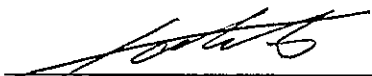
The above Statement of Movement in Head Office Account should be read in conjunction with the accompanying notes.

Mitsui Sumitomo Insurance Company Limited - New Zealand Branch
Statement of Financial Position
As at 31 March 2016


	Notes	31 March 2016 \$	31 March 2015 \$
Assets			
Cash and Cash Equivalents		59,754,339	63,359,475
Investment in Government Stock	6	-	500,000
Premium Receivables		1,530,360	1,748,730
Other Current Assets	7	1,597,131	1,439,052
Reinsurance Receivable		3,418,220	834,645
Reinsurance Recoveries	8	39,533,421	35,219,522
Property, Plant and Equipment	9	14,985	25,579
Total Assets		105,848,456	103,127,003
Liabilities			
Accounts Payable	10	464,931	811,815
Reinsurance Payable		765,869	655,042
Other Current Liabilities	11	291,585	197,727
Unearned Premium Reserve	12	2,784,665	2,834,754
Outstanding Claims Liability	13	56,510,709	55,362,010
Due to Related Parties	17	2,352,945	1,574,051
Total Liabilities		63,170,704	61,435,399
Net Assets		42,677,752	41,691,604
Head Office Account		42,677,752	41,691,604

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



Director

15 JUL 2016

Date

15 JUL 2016

Date

Mitsui Sumitomo Insurance Company Limited - New Zealand Branch
Statement of Cash Flows
For the year ended 31 March 2016

	Notes	2016 \$	2015 \$
Cash flows from operating activities			
Premiums received		7,613,763	9,969,083
Reinsurance and other recoveries received		749,435	593,194
Interest received		1,975,805	2,240,516
Claims paid		(10,351,135)	(7,183,666)
Reinsurance premiums paid		(3,579,256)	(3,489,071)
Net acquisition costs received		7,347	60,973
Operating expenses paid		(521,095)	(572,294)
Net cash (used in)/from operating activities	19	(4,105,136)	1,618,735
Cash flows from investing activities			
Receipt of investments on maturity		500,000	-
Payments for purchases of plant & equipment		-	(2,329)
Net cash from/(used in) investing activities		500,000	(2,329)
Net (decrease)/increase in cash and cash equivalents		(3,605,136)	1,616,406
Cash and cash equivalents at the beginning of the financial year		63,359,475	61,743,069
Cash and cash equivalents at the end of the financial year		59,754,339	63,359,475

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 (IFRS).

The financial statements of the Branch are for the year ended 31 March 2016. The financial statements were authorised for issue by the Directors on the 15th of July 2016.

Critical Judgements and 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

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 2016 (2015: 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	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 2016, 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.

	2016	2015
	\$	\$
1 Total Revenue		
This comprises:		
Gross written premium	7,395,392	9,824,472
Change in unearned premium reserve	50,091	465,302
Gross Earned Premium	7,445,483	10,289,774
Reinsurance commission income	306,349	438,897
Reinsurance and other recoveries	7,646,909	(6,401,521)
Reinsurance Income	7,953,258	(5,962,624)
Investment Income	1,844,119	2,257,673
Other income	1,293	501
Sundry Income	1,293	501
Total Revenue	17,244,153	6,585,324
1(a) Premium Revenue		
Direct	7,396,720	10,241,271
Reinsurance	48,763	48,503
Total Gross Earned Premium	7,445,483	10,289,774
1(b) Investment Income		
Financial assets at fair value through profit or loss (designated upon initial recognition)		
Interest income	1,392	14,842
Change in fair value	-	(13,386)
Cash and cash equivalents interest income	1,842,727	2,256,217
Total Investment Income	1,844,119	2,257,673
2 Reinsurance Expense		
Outward reinsurance premium expense	(3,678,530)	(3,530,481)
Change in unearned reinsurance premium provision	486,015	128,655
	(3,192,515)	(3,401,826)
3 Operating Expenses		
Management fee	641,300	884,928
Fees paid to auditors:		
audit - statutory financial statements	81,500	79,500
tax	6,550	5,935
Depreciation	10,594	13,403
Employee benefits	156,951	159,882
Other expenses	262,178	242,212
Total operating expenses	1,169,073	1,385,860

	2016 \$	2015 \$
4 Claims Expense		
Direct	11,499,835	(6,239,500)
Reinsurance	-	-
	<u>11,499,835</u>	<u>(6,239,500)</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 \$
2016			
Gross claims incurred - undiscounted	4,212,701	7,314,109	11,526,810
Discount movement	(40,106)	13,131	(26,975)
<i>Gross claims incurred - discounted</i>	<u>4,172,595</u>	<u>7,327,240</u>	<u>11,499,835</u>
Reinsurance and other recoveries - undiscounted	(543,338)	(7,106,133)	(7,649,471)
Discount movement	5,319	(2,757)	2,562
<i>Reinsurance and other recoveries - discounted</i>	<u>(538,019)</u>	<u>(7,108,890)</u>	<u>(7,646,909)</u>
Net claims Incurred	<u>3,634,576</u>	<u>218,350</u>	<u>3,852,926</u>
	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>

Included in reinsurance recoveries is a loss of \$294,494 (2015: gain of \$59,543) 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.

The net claims incurred movement in 2015 on claims incurred in prior years primarily relates to release of actuarial reserves and corresponding reinsurance recoveries on Canterbury earthquake claims.

	2016 \$	2015 \$
5 Taxation Expense		
Reconciliation of effective tax rate		
Profit before tax	986,148	7,636,747
Income tax at Branch tax rate 28% (2015: 28%)	276,121	2,138,289
Tax adjustment on unrecognised losses	(276,121)	(2,138,289)
Total Income Tax Expense	<u>-</u>	<u>-</u>

	2016 \$	2015 \$
6 Investment In Government Stock		
Fixed income securities - New Zealand Government Stock	-	500,000
	<u>2016</u> \$	<u>2015</u> \$
7 Other Current Assets		
Accrued income	52,143	183,829
Deferred acquisition costs	261,634	263,803
Deferred reinsurance premium	1,146,053	660,038
Prepaid expenses	77,604	94,710
GST receivable	59,697	236,672
	<u>1,597,131</u>	<u>1,439,052</u>
7(a) Deferred acquisition costs		
Deferred acquisition costs at 1 April	263,803	264,589
Acquisition costs deferred	404,413	399,605
Amortisation charged to the profit or loss	(406,582)	(400,391)
Deferred acquisition costs at 31 March	<u>261,634</u>	<u>263,803</u>
7(b) Deferred reinsurance premium		
Deferred reinsurance premium at 1 April	660,038	531,383
Reinsurance premium deferred	3,678,530	3,530,481
Reinsurance premium charged to the profit or loss	(3,192,515)	(3,401,826)
Deferred reinsurance premium at 31 March	<u>1,146,053</u>	<u>660,038</u>
	<u>2016</u> \$	<u>2015</u> \$
8 Reinsurance Recoveries		
Reinsurance recoveries arising from claims	<u>39,533,421</u>	<u>35,219,522</u>
Reinsurance and other recoveries receivable at 1 April	35,219,522	42,670,039
Recoveries on claims reassessed	7,108,890	(7,385,319)
Recoveries received	(237,736)	(1,048,996)
Transfer of recoveries to receivables	(3,095,272)	-
Recoveries on new claims	538,019	993,798
Reinsurance and other recoveries receivable at 31 March	<u>39,533,421</u>	<u>35,219,522</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 31 March 2014	41,189	42,344	83,533
Additions	-	-	-
Disposals	-	-	-
Balance at 31 March 2015	<u>41,189</u>	<u>42,344</u>	<u>83,533</u>
Additions	-	-	-
Balance at 31 March 2016	<u>41,189</u>	<u>42,344</u>	<u>83,533</u>
Accumulated depreciation			
Balance at 31 March 2014	9,370	35,181	44,551
Charge for the year	8,650	4,753	13,403
Balance at 31 March 2015	<u>18,020</u>	<u>39,934</u>	<u>57,954</u>
Charge for the year	8,650	1,944	10,594
Balance at 31 March 2016	<u>26,670</u>	<u>41,878</u>	<u>68,548</u>
Carrying amounts			
At 31 March 2015	<u>23,169</u>	<u>2,410</u>	<u>25,579</u>
At 31 March 2016	<u>14,519</u>	<u>466</u>	<u>14,985</u>

10 Accounts Payable	2016	2015
	\$	\$
Trade creditors and accruals	320,474	664,309
Government levies	144,457	147,508
	<u>464,931</u>	<u>811,815</u>

11 Other Current Liabilities	2016	2015
	\$	\$
Unearned reinsurance commission	212,125	106,714
Non-resident withholding tax	79,460	91,013
	<u>291,585</u>	<u>197,727</u>

11(a) Unearned reinsurance commission		
Unearned reinsurance commission at 1 April	106,714	85,033
Reinsurance commission deferred	411,760	460,578
Reinsurance commission recognised in profit or loss	(306,349)	(438,897)
Unearned reinsurance commission at 31 March	<u>212,125</u>	<u>106,714</u>

12 Unearned Premium Reserve	2016	2015
	\$	\$
Unearned premium liability	<u>2,784,665</u>	<u>2,834,754</u>
Unearned premium liability at 1 April	2,834,754	3,300,056
Deferral of premium on contracts written at year end	2,784,665	2,834,754
Prior year premium earned	(2,834,754)	(3,300,056)
Unearned premium liability at 31 March	<u>2,784,665</u>	<u>2,834,754</u>

12 Unearned Premium Reserve (continued)

Liability adequacy test

A liability adequacy test ("LAT") was performed as at 31 March 2016 and 31 March 2015. Both tests identified a surplus the calculations for which are disclosed below:

	2016 \$	2015 \$
Gross unearned premium	2,784,665	2,834,754
Deferred reinsurance premium	(1,146,053)	(660,038)
Deferred acquisition expenses	(49,509)	(157,089)
Premium available to meet expected claims cost	<u>1,589,103</u>	<u>1,910,913</u>
Net premium liability (including 75% probability of adequacy risk margin)	1,469,820	1,023,734
LAT result	Pass	Pass

The risk margin included in the Branch's expected future cash flows for future claims is 33% (2015: 27%). The risk margin takes into account uncertainty within the estimates of estimated premium liability 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

	2016 \$	2015 \$
Central estimate of outstanding claims liabilities	52,603,536	51,115,451
Discount to present value	(31,279)	(11,113)
Risk margin	3,798,441	4,219,161
Claims handling expense	<u>140,011</u>	<u>38,511</u>
	<u>56,510,709</u>	<u>55,362,010</u>

There remains uncertainty surrounding the measurement of gross claims liabilities and the related reinsurance recoveries. The uncertainty arises from a number of factors including; complexities associated with determining key actuarial assumptions including the selection of a risk margin, foreign exchange 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 claims relating to the Canterbury Earthquakes are settled the magnitude of this uncertainty decreases.

Given the nature and number of uncertainties the Branch's actual claims experience may deviate, perhaps substantially, from the gross outstanding claims liabilities recorded as at 31 March 2016. 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 previous six most recent accident years.

Ultimate claims cost estimate	2010 \$	2011 \$	2012 \$	2013 \$	2014 \$	2015 \$	2016 \$	Total \$
At end of accident year	-	-	8,353,454	2,613,262	1,427,174	3,219,289	3,554,776	3,554,776
One year later	-	140,506,924	8,631,171	1,862,865	1,150,409	3,011,577	-	3,011,577
Two years later	825,958	150,311,131	7,751,977	1,541,712	1,139,371	-	-	1,139,371
Three years later	827,912	169,156,948	7,058,354	1,609,955	-	-	-	1,609,955
Four years later	827,912	161,445,112	7,506,884	-	-	-	-	7,506,884
Five years later	828,923	169,435,711	-	-	-	-	-	169,435,711
Six years later	828,923	-	-	-	-	-	-	828,923
Total current estimate of ultimate claims costs	828,923	169,435,711	7,506,884	1,609,955	1,139,371	3,011,577	3,554,776	187,087,197
Cumulative payments	737,787	124,322,341	2,236,582	1,609,955	1,139,370	2,973,205	1,464,421	134,483,661
Undiscounted central estimate	91,136	45,113,370	5,270,302	-	1	38,372	2,090,355	52,603,536
Discount	252	0	0	-	0	359	30,668	31,279
Discounted central estimate	90,884	45,113,370	5,270,302	-	1	38,013	2,059,687	52,572,257
Claims handling expense	5,814	0	0	-	0	2,432	131,765	140,011
Risk margin	23,132	2,714,364	527,030	-	0	9,676	524,239	3,798,441
Gross outstanding claims liability	119,830	47,827,734	5,797,332	-	1	50,121	2,715,691	56,510,709
Reinsurance recoveries on outstanding claims liability	-	27,376	-	39,147,542	-	0	-	39,147,542
Net outstanding claims liability	92,454	8,680,192	5,797,332	-	1	40,626	2,366,883	16,977,488

13 Outstanding Claims Liability (continued)

	2016 \$	2015 \$
13(c) Reconciliation of movement in outstanding claims		
Outstanding claims liability at 1 April	55,362,010	51,115,451
Claims reassessed	7,327,240	(11,113)
Claims paid	(10,351,135)	4,219,161
New claims	<u>4,172,595</u>	<u>38,511</u>
Outstanding claims liability at 31 March	<u>56,510,710</u>	<u>55,362,010</u>

14 Deferred Tax

At 31 March 2016 the Branch has unused tax losses of \$83,333,684 (2015: \$84,319,832) for which no deferred tax asset is recognised.

15 Contingent Liabilities

The Branch has no contingent liabilities at balance date (2015: Nil).

16 Commitments

The Branch has no commitments for expenditure at balance date (2015: 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:	2016 \$	2015 \$
Reinsurance premiums	1,101,569	875,917
Reinsurance recoveries	(54,140)	(153,764)
Reinsurance commission earned	(219,264)	(169,775)
Other expense paid/ recharged	<u>(49,271)</u>	<u>(47,378)</u>
	<u>778,894</u>	<u>505,000</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)

	2016 \$	2015 \$
Outstanding balance with Head Office:		
Due to related parties	<u>2,352,945</u>	<u>1,574,051</u>

Aloi Management New Zealand Ltd ("Aloi"), a related entity, provides motor vehicle claims handling services on behalf of the Branch.

	2016 \$	2015 \$
Transactions with Aloi:		
Management fees paid	<u>41,300</u>	<u>35,500</u>

Outstanding balance with Aloi:

Other current assets	<u>77,604</u>	<u>94,710</u>
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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:

	2016 \$	2015 \$
Short-term employee benefits	<u>150,973</u>	<u>153,512</u>

18 Credit Rating

Mitsui Sumitomo Insurance Company Limited has received an A+ (2015: 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

	2016 \$	2015 \$
Net profit for the period	988,148	7,838,747
Movement in financial assets at fair value through profit or loss	-	13,388
Depreciation	10,594	13,403
Change in operating assets and liabilities		
Decrease in premium receivables	218,370	144,611
Increase in reinsurance receivables	(2,583,575)	(455,802)
(Increase)/decrease in reinsurance recoveries	(4,313,899)	7,450,517
Increase in other current assets	(158,079)	(193,969)
(Decrease)/increase in accounts payable	(346,884)	330,219
Increase in reinsurance payable	110,827	103,981
Increase/(decrease) in other current liabilities	93,858	(40,890)
Increase/(decrease) in outstanding claims liability	1,148,699	(13,423,166)
Decrease in unearned premium reserve	(50,089)	(465,302)
Decrease in amounts due to related parties	778,894	505,000
Net cash flow from operating activities	<u>(4,105,136)</u>	<u>1,618,735</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 2016 Supplement to the Earnings Report available from www.ms-ad-hd.com, as calculated under the Japanese regulations. The 2016 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.

	2016 NZD in millions (Unaudited)	2015 NZD in millions (Unaudited)
Actual Solvency Capital [A]	33,566	29,647
Minimum Solvency Capital [B]	11,456	9,100
Solvency Margin [A-B/2]	27,838	25,097
Solvency Ratio [A/B/2]*100	586.0%	651.6%

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 \$44,678,833 and \$15,075,506 respectively (2015: \$48,285,807 and \$15,073,668 respectively) representing all cash and cash equivalents held. The Branch's reinsurance recoveries are spread over a number of counterparties and relate predominantly to the Canterbury earthquakes. The largest concentration with a single reinsurer is for \$9,622,805 (2015: \$7,995,450).

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
2016	\$	\$	\$	\$	\$
Cash and Cash Equivalents	59,754,339	-	-	-	59,754,339
Premium Receivables	-	-	-	1,530,360	1,530,360
Other Current Assets - Accrued Income	52,143	-	-	-	52,143
Reinsurance Receivable	795,485	2,607,259	-	15,476	3,418,220
Reinsurance Recoveries	10,084,677	29,147,466	-	301,258	39,533,421
Total	70,686,644	31,754,745	-	1,847,094	104,288,483

	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

As at 31 March 2016 there are no assets that are past due or impaired (2015: 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.

2016	Maturing In:				Total
	0 - 1 Year	1 - 2 Years	2 - 4 Years	No Term	
	\$	\$	\$	\$	\$
Financial Liabilities					
Reinsurance Payable	765,869	-	-	-	765,869
Due to Related Parties	-	-	-	2,352,945	2,352,945
Trade creditors and accruals	320,474	-	-	-	320,474
Total	1,086,343	-	-	2,352,945	3,439,288

2015	Maturing In:				Total
	0 - 1 Year	1 - 2 Years	2 - 4 Years	No Term	
	\$	\$	\$	\$	\$
Financial Liabilities					
Reinsurance Payable	655,042	-	-	-	655,042
Due to Related Parties	-	-	-	1,574,051	1,574,051
Trade creditors and accruals	664,309	-	-	-	664,309
Total	1,319,351	-	-	1,574,051	2,893,402

(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 no longer result in a movement in the threshold at 31 March 2016, as cumulative claims payments have now exceeded the reinsurance recovery threshold (2015: \$52,180).

(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
	\$	\$	\$
2016			
Financial Assets			
Cash and Cash Equivalents	59,754,339	(597,543)	597,543

	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

Fair Value Sensitivity Analysis for Fixed Rate Instruments

	Interest Rate Risk		
	Carrying Amount	-1% Profit/Equity	+1% Profit/Equity
	\$	\$	\$
2016			
Financial Assets			
Investment in Government Stock	-	-	-

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

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
	\$	\$	\$
2016			
Financial Assets			
Cash and Cash Equivalents	59,754,339	59,754,339	-
Investment in Government Stock	-	-	-
Premium Receivables	1,530,360	1,530,360	-
Other Current Assets - Accrued Income	52,143	52,143	-
Reinsurance Receivable	3,418,220	3,418,220	-
Total	64,755,062	64,755,062	-

	Total	Fair Value through Profit and Loss	Financial Liabilities at amortised cost
	\$	\$	\$
Financial Liabilities			
Accounts Payable - Trade Creditors and Accruals	320,474	-	320,474
Reinsurance Payable	765,869	-	765,869
Due to Related Parties	2,352,945	-	2,352,945
Total	3,439,288	-	3,439,288

21 Financial Risk Management (continued)

2015	Total \$	Loans and Receivables \$	Fair Value through Profit and Loss \$
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

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 (2015: 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 (2015: 12 months).

(b) Inflation and discount rates

Insurance costs are subject to inflationary pressures over time. However, the period between the valuation date and the settlement of most claims is short, and the valuation implicitly allows for past levels of inflation to continue in the future. Therefore, the impact on outstanding claims due to increases in claims costs as a result of inflation is limited.

In respect of Non-Canterbury earthquake claims, the short settlement period means the effect of discounting expected future payments is limited. These estimates have been discounted to allow for the time value of money at a rate of 2.1% per annum (2015: 3.35%).

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(c)(i).

(d) Expense allowance

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

(e) Risk margin

The risk margin takes into account uncertainty within the estimates of outstanding claims for each type of risk insured and applying an allowance for diversification across the portfolio. The percentage risk margin adopted is 28.8% (2015: 26.5%). 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 2016 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% (2015: 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	2016	2015
Discount Rate %	+1%	(11,863)	(2,351)
	-1%	12,123	2,401
IBNR Tail Strengthening	+1% p.a. for 4 quarters	80,549	105,997
Risk Margin %	+1%	131,789	159,234
	-1%	(131,789)	(159,234)

(g) Actuarial information

John Smeed (Actuary, Finity) is the actuary who completed the Insurance Liability Valuation Report. He is a Fellow of the New Zealand Society of Actuaries. The actuarial calculations were completed in accordance with New Zealand Society of Actuaries Professional Standard No.4. The effective date of the actuary's report is 31 March 2016.

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 2016 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 results of the Branch's operations for the year ended 31 March 2016 or the Branch's financial position as at 31 March 2016.



Independent auditor's report

To the shareholder 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 2016, 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.

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the Branch's shareholder those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Branch's shareholder as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the financial statements

The directors are responsible on behalf of the Branch 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 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 2016 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 Note 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.



18 July 2016
Auckland

18 July 2016

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 2016
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 2016, 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

A handwritten signature in black ink, appearing to read 'John Smeed'.

John Smeed
Appointed Actuary

A handwritten signature in black ink, appearing to read 'Anita Samu'.

Anita Samu

Fellows of the New Zealand Society of Actuaries

Mon 18 July 2016 10:18 AM

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18 July 2016

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 2016
Mitsui Sumitomo Insurance Company Limited - New Zealand Branch**

Finity Consulting Pty Limited (Finity) has been asked by Mitsui Sumitomo Insurance Company Limited, New Zealand Branch (Mitsui NZ) to carry out a review of the 31 March 2016 actuarial information contained in the financial statements and provide an opinion as to its appropriateness. John Smeed is an employee of Finity and is the Appointed Actuary to Mitsui NZ. Finity has no relationship with Mitsui NZ apart from the Appointed Actuary role.

Mitsui NZ's policy is to seek and adopt the advice of the Appointed Actuary in respect of the actuarial information contained in its financial statements. We confirm that the financial statements as at 31 March 2016 have been prepared in accordance with this policy, and as such this satisfies the requirements of the Act.

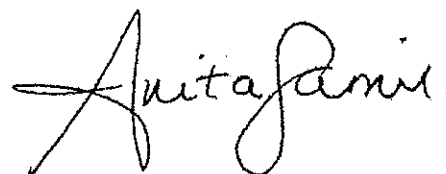
Having carried out our actuarial review nothing has come to our attention that would lead us to believe that the actuarial information contained in the financial statements for Mitsui NZ as at 31 March 2016 is inappropriate.

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

Mon 18 July 2016 10:14 AM

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MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Financial Statements

For the years ended March 31, 2015 and 2016

(With Independent Auditor's Report Thereon)

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

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



Independent Auditor's Report

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

We have audited the accompanying financial statements of Mitsui Sumitomo Insurance Company, Limited, which comprise the balance sheets as of March 31, 2015 and 2016, 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 misstatement, 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, 2015 and 2016, and their financial performance for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

June 22, 2016
Tokyo, Japan

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets

As of March 31, 2015 and 2016

	2015	2016
	(Yen in millions)	
<u>Assets</u>		
Assets		
Cash, deposits and savings:		
Cash on hand	¥ 124	133
Deposits in banks	<u>214,906</u>	<u>442,420</u>
Total cash, deposits and savings	215,030	442,553
Call loans	40,000	-
Receivables under resale agreements	36,497	29,999
Monetary claims bought	95,949	28,785
Money trusts	12,913	11,564
Investments in securities:		
Government bonds	1,419,581	1,278,847
Municipal bonds	96,178	91,948
Corporate bonds	522,086	494,579
Stock	2,247,738	1,756,599
Foreign securities	896,805	1,525,945
Other securities	<u>22,996</u>	<u>25,817</u>
Total investments in securities	5,205,386	5,173,738
Loans:		
Policy loans	8,953	8,242
General loans	<u>489,686</u>	<u>440,424</u>
Total loans	498,639	448,667
Tangible fixed assets:		
Land	85,729	77,690
Buildings	130,824	127,253
Construction in progress	1,327	33
Other tangible fixed assets	<u>10,679</u>	<u>11,006</u>
Total tangible fixed assets	228,560	215,984
Intangible fixed assets:		
Software	28,784	23,485
Other intangible fixed assets	<u>20,877</u>	<u>19,554</u>
Total intangible fixed assets	49,661	43,039

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2015	2016
	(Yen in millions)	
Other assets:		
Premiums receivable	¥ 4,145	3,068
Due from agencies	113,039	114,336
Co-insurance accounts receivable	6,405	7,263
Reinsurance accounts receivable	55,826	58,020
Foreign reinsurance accounts receivable	39,437	30,899
Agency business accounts receivable	237	583
Other receivables	27,724	26,530
Accrued income	6,230	6,260
Guarantee deposits	11,730	11,530
Deposits with Japan Earthquake Reinsurance Co., Ltd.	10,584	11,286
Suspense payments	41,454	36,111
Derivative financial instruments	44,147	42,639
Other assets	<u>1,179</u>	<u>1,038</u>
Total other assets	362,144	349,567
Customers' liabilities under acceptances and guarantees	52,214	45,803
Bad debt reserve	<u>(6,977)</u>	<u>(3,115)</u>
Total assets	¥ <u>6,790,021</u>	<u>6,786,590</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2015	2016
	(Yen in millions)	
<u>Liabilities and Net Assets</u>		
Liabilities		
Policy liabilities:		
Outstanding claims	¥ 640,913	649,729
Underwriting reserves	<u>3,314,789</u>	<u>3,344,890</u>
Total policy liabilities	3,955,703	3,994,619
Bonds issued	176,188	256,191
Other liabilities:		
Co-insurance accounts payable	10,561	10,935
Reinsurance accounts payable	59,080	59,230
Foreign reinsurance accounts payable	29,780	22,171
Agency business accounts payable	36	24
Borrowings	100,000	296,767
Income taxes payable	6,508	31,780
Deposits received	19,344	18,212
Unearned income	90	43
Other payables	46,583	46,819
Suspense receipts	21,527	24,236
Derivative financial instruments	2,405	5,160
Cash collateral received under derivative transactions	106,136	87,988
Lease obligations	1,185	903
Asset retirement obligations	3,710	3,765
Other liabilities	<u>501</u>	<u>2,745</u>
Total other liabilities	407,453	610,785
Reserve for pension and retirement benefits	137,329	135,688
Reserve for retirement benefits for officers	912	761
Accrued bonuses for employees	12,387	11,716
Reserves under the special laws:		
Reserve for price fluctuation	<u>60,519</u>	<u>64,133</u>
Total reserves under the special laws	60,519	64,133
Deferred tax liabilities	254,567	139,408
Acceptances and guarantees	<u>52,214</u>	<u>45,803</u>
Total liabilities	<u>5,057,276</u>	<u>5,259,108</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2015	2016
	(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	15,406	16,012
Retained earnings brought forward	<u>232,779</u>	<u>290,143</u>
Total other retained earnings	<u>248,185</u>	<u>306,156</u>
Total retained earnings	<u>294,673</u>	<u>352,644</u>
Total shareholders' equity	<u>527,376</u>	<u>585,347</u>
Valuation and translation adjustments:		
Net unrealized gains/(losses) on investments in securities	1,173,227	902,019
Net deferred gains/(losses) on hedges	<u>32,140</u>	<u>40,113</u>
Total valuation and translation adjustments	<u>1,205,368</u>	<u>942,133</u>
Total net assets	<u>1,732,745</u>	<u>1,527,481</u>
Total liabilities and net assets	¥ <u>6,790,021</u>	<u>6,786,590</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Income

For the years ended March 31, 2015 and 2016

	2015	2016
	(Yen in millions)	
<u>Ordinary income and expenses</u>		
Ordinary income:		
Underwriting income:		
Net premiums written	¥ 1,444,176	1,507,157
Deposit premiums from policyholders	104,342	84,712
Investment income on deposit premiums from policyholders	39,981	37,567
Reversal of outstanding claims	11,397	-
Foreign exchange gains	6,284	-
Other underwriting income	682	259
Total underwriting income	1,606,863	1,629,696
Investment income:		
Interest and dividends income	110,618	116,990
Investment gains on money trusts	1,268	739
Gains on sales of securities	90,115	102,149
Gains on redemption of securities	1,658	541
Gains on derivative transactions	1,078	3,466
Foreign exchange gains	9,163	-
Other investment income	603	1,095
Transfer of investment income on deposit premiums from policyholders	(39,981)	(37,567)
Total investment income	174,526	187,416
Other ordinary income	6,197	5,645
Total ordinary income	1,787,587	1,822,757
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	810,853	800,899
Loss adjustment expenses	88,020	87,427
Commissions and collection expenses	253,813	263,136
Maturity refunds to policyholders	210,769	211,446
Dividends to policyholders	796	967
Provision for outstanding claims	-	8,815
Provision for underwriting reserves	21,569	30,101
Foreign exchange losses	-	1,851
Other underwriting expenses	484	619
Total underwriting expenses	1,386,306	1,405,264

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Income (Continued)

	2015	2016
	(Yen in millions)	
Investment expenses:		
Investment losses on money trusts	¥ -	536
Losses on sales of securities	57	3,004
Impairment losses on securities	3,378	7,292
Losses on redemption of securities	250	425
Foreign exchange losses	-	9,825
Other investment expenses	<u>4,373</u>	<u>5,652</u>
Total investment expenses	8,059	26,738
Operating expenses and general and administrative expenses	215,765	215,144
Other ordinary expenses:		
Interest expense	5,888	6,173
Losses on bad debts	1	4
Other ordinary expenses	<u>237</u>	<u>1,535</u>
Total other ordinary expenses	<u>6,128</u>	<u>7,713</u>
Total ordinary expenses	<u>1,616,259</u>	<u>1,654,861</u>
Ordinary profit/(loss)	171,328	167,896
<u>Extraordinary income and losses</u>		
Extraordinary income:		
Gains on sales of fixed assets	8,523	1,782
Other extraordinary income	<u>1,800</u>	<u>-</u>
Total extraordinary income	10,323	1,782
Extraordinary losses:		
Losses on sales of fixed assets	1,862	520
Impairment losses on fixed assets	1,400	8,294
Provision for reserves under the special laws:		
Provision for reserve for price fluctuation	<u>40,788</u>	<u>3,613</u>
Total provision for reserves under the special laws	40,788	3,613
Other extraordinary losses	<u>-</u>	<u>1,139</u>
Total extraordinary losses	<u>44,051</u>	<u>13,567</u>
Income/(loss) before income taxes	137,599	156,111
Income taxes-current	9,702	37,305
Income taxes-deferred	<u>38,782</u>	<u>4,835</u>
Total income taxes	<u>48,485</u>	<u>42,140</u>
Net income/(loss)	¥ <u>89,114</u>	<u>113,970</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Changes in Net Assets

For the years ended March 31, 2015 and 2016

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	Retained earnings brought forward	
Beginning balance	¥ 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
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

Statements of Changes in Net Assets (Continued)

2016

(Yen in millions)

	Shareholders' equity					
	Common stock	Capital surplus	Retained earnings			Total Shareholders' equity
		Additional paid-in capital	Legal earned reserve	Other retained earnings	Retained earnings brought forward	
				Tax-exempted reserve for accelerated depreciation		
Beginning balance	¥ 139,595	93,107	46,487	15,406	232,779	527,376
Changes for the year						
Provision for tax-exempted reserve for accelerated depreciation				876	(876)	-
Reversal of tax-exempted reserve for accelerated depreciation				(270)	270	-
Dividends paid					(55,999)	(55,999)
Net income/(loss)					113,970	113,970
Net changes of items other than shareholders' equity						
Total changes for the year	-	-	-	606	57,364	57,970
Ending balance	¥ 139,595	93,107	46,487	16,012	290,143	585,347

	Valuation and translation adjustments		Total net assets
	Net unrealized gains/(losses) on investments in securities	Net deferred gains/(losses) on hedges	
Beginning balance	¥ 1,173,227	32,140	1,732,745
Changes for the year			
Provision for tax-exempted reserve for accelerated depreciation			-
Reversal of tax-exempted reserve for accelerated depreciation			-
Dividends paid			(55,999)
Net income/(loss)			113,970
Net changes of items other than shareholders' equity	(271,207)	7,973	(263,234)
Total changes for the year	(271,207)	7,973	(205,263)
Ending balance	¥ 902,019	40,113	1,527,481

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements

For the years ended March 31, 2015 and 2016

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)

- (a) Investments in subsidiaries and associates are valued at cost determined by the moving average method.
- (b) 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.
- (c) Available-for-sale securities without practically determinable fair value are valued at cost using the moving average method.
- (d) 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

Derivative financial instruments are valued at fair value.

(3) Depreciation methods of tangible fixed assets

Depreciation of tangible fixed assets is computed using the straight-line method.

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

The Company has changed the depreciation method of tangible fixed assets from the declining-balance method to the straight-line method since the year ended March 31, 2016.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

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

MS&AD Insurance Group to which the Company belongs has been endeavoring to enhance the efficiency of its business management as a group and expand its international business with an aim to become one of the top global insurance and financial groups since April 1, 2010, when it was established. MS&AD Insurance Group has also moved forward with the reorganization by function as planned in “Next Challenge 2017” medium-term management plan, and most of the individual reorganization plans had been put in practice by the end of the previous year.

With the reorganization by function taking place, MS&AD Insurance Group reviewed its accounting policies including those applied by overseas subsidiaries and determined that it is more appropriate to adopt the straight-line depreciation method for tangible fixed assets for the following reasons:

- (a) After the reorganization by function, it is expected that tangible fixed assets held by the Company will be used stably over their useful lives. Therefore, by adopting the straight-line method, in which an equal amount of expenses is recognized over useful lives of tangible fixed assets, it is considered that the actual usage of tangible fixed assets will be more appropriately reflected in profit and loss for each reporting period.
- (b) By adopting the straight-line method, MS&AD Group will be able to unify accounting policies applied by domestic consolidated subsidiaries with those applied by overseas consolidated subsidiaries that have been using the straight-line method, and be able to provide more useful financial information.

As a result of the change, Ordinary profit/(loss) and Income /(loss) before income taxes increased by ¥3,217 million, compared with the amounts calculated by the previous accounting method.

(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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

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.

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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

(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 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.

Interest rate swap contracts for hedging risks of variability in the interest rates of loans, bonds and borrowings are accounted for under the deferred hedge method or the exceptional method when they meet certain criteria.

Gains and losses on interest rate and currency swap contracts used for hedging risks of variability in foreign exchange rates and interest rates on foreign currency borrowings are accounted for under the integrated method when they meet certain criteria. The integrated method is to hedge foreign exchange risks and interest rate risks using the allocation method and the exceptional method, respectively.

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, when the interest rate swap transactions meet the criteria for application of the exceptional method, or when the interest rate and currency swap transactions meet the criteria for application of the integrated method, hedge effectiveness is not assessed.

Certain interest rate swap contracts used for the ALM (Asset and Liability Management) to

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

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, 2015	March 31, 2016
59,600	109,244

(Note) The amounts in the above table are included in Stock and Foreign securities under Investments in securities as of March 31, 2015 and in Stock and Foreign securities under Investments in securities as of March 31, 2016.

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, 2015	March 31, 2016
Loans to borrowers in bankruptcy	3	1
Overdue loans	370	161
Loans overdue for 3 months or more	501	587
Restructured loans	556	516
Total	1,432	1,265

(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, 2015	March 31, 2016
Accumulated depreciation	272,376	275,821
Accelerated depreciation	14,649	14,418

(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, 2015 and 2016 were ¥14,649 million and ¥14,418 million, respectively.

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

	(Yen in millions)	
	March 31, 2015	March 31, 2016
Total amounts receivable	13,406	10,726
Total amounts payable	14,014	14,034

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

	(Yen in millions)	
	March 31, 2015	March 31, 2016
Deferred tax assets:		
Underwriting reserves	124,996	123,802
Reserve for pension and retirement benefits	39,550	37,943
Outstanding claims	19,220	21,106
Investments in securities	24,902	21,023
Reserve for price fluctuation	17,429	17,893
Software	12,538	12,375
Others	22,921	19,976
Total gross deferred tax assets	261,560	254,121
Less valuation allowance	(22,971)	(20,506)
Total net deferred tax assets	238,589	233,615
Deferred tax liabilities:		
Net unrealized gains/(losses) on investments in securities	(472,034)	(349,471)
Others	(21,121)	(23,552)
Total gross deferred tax liabilities	(493,156)	(373,024)
Total deferred tax liabilities net of deferred tax assets	(254,567)	(139,408)

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

(Adjustments to deferred tax assets and liabilities and others due to changes in income tax rates)

In accordance with the “Act for Partial Revision of the Income Tax Act etc.” (Act No.15 of 2016) enacted by the Diet on March 29, 2016, the corporate tax rates will be reduced from the year commencing on or after April 1, 2016.

Accordingly, the statutory income tax rates to determine deferred tax assets and liabilities for temporary differences expected to reverse in the years commencing on April 1, 2016 and 2017, and those in the years commencing on or after April 1, 2018 are reduced from 28.8% to 28.2% and 27.9%, respectively.

The effect of this change was increases in Net unrealized gains/(losses) on investments in securities of ¥10,958 million and Income taxes–deferred of ¥6,718 million and decreases in Underwriting reserves of ¥93 million, Deferred tax liabilities (net of Deferred tax assets) of ¥4,706 million, and Net income of ¥6,625 million.

6. Guarantees and similar arrangements for subsidiaries and associates

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

March 31, 2016

(Guarantees)

The Company provides a guarantee of ¥50,888 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 overseas 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 companies was ¥284,167 million as of March 31, 2016.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

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

	(Yen in millions)	
	March 31, 2015	March 31, 2016
Stock	432,973	1,074,237
Capital	18,296	17,927

8. The amounts of pledged assets are as follows:

	(Yen in millions)	
	March 31, 2015	March 31, 2016
Cash, deposits and savings	-	2,253
Investments in securities	80,420	88,700

(Note) The amounts in the above table primarily consist of collateral assets required for international 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, 2015	March 31, 2016
Gross outstanding claims (except for (b))	673,275	704,339
Reinsurance recoverable on unpaid losses	85,702	108,158
Net (a)	587,573	596,180
Outstanding claims relating to earthquakes and compulsory automobile liability insurance (b)	53,340	53,548
Total (a) + (b)	640,913	649,729

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

	(Yen in millions)	
	March 31, 2015	March 31, 2016
Gross ordinary underwriting reserves	1,248,772	1,314,293
Reinsurance recoverable on underwriting reserves	65,825	69,880
Net (a)	1,182,947	1,244,412
Gross refund reserves	1,466,277	1,369,269
Reinsurance recoverable on refund reserves	5	4
Net (b)	1,466,271	1,369,265
Other underwriting reserves (c)	665,569	731,212
Total (a) + (b) + (c)	3,314,789	3,344,890

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

10. Business combination

(Business combination through acquisition)

The Company acquired shares of Amlin plc. ("Amlin"), a holding company which operates the insurance business globally, mainly in the Lloyd's insurance market in the UK. Amlin became a wholly-owned subsidiary of the Company, and was rebranded to MS Amlin plc.

For details, please refer to "Notes to Consolidated Balance Sheets, 11. Business Combination" of Consolidated Financial Statements of the Company and its consolidated subsidiaries.

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

	March 31, 2015	March 31, 2016
Net assets per share (in Yen)	1,233.79	1,087.63
Amounts deducted from net assets (Yen in millions)	-	-
Outstanding common stock (in thousands of shares)	1,404,402	1,404,402

12. 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:

	(Yen in millions)	
	March 31, 2015	March 31, 2016
Commercial papers	23,997	14,999
Securities	4,751	-

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

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

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.

March 31, 2016

The Company provides guarantees on transactions conducted by a limited partnership entity. Aggregate net present value of these transactions was ¥202,597 million in a negative liability position as of March 31, 2016. 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

Notes to Balance Sheets (Continued)

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

(Yen in millions)	
March 31, 2015	March 31, 2016
295	-

15. "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, 2015 and 2016

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, 2015	For the year ended March 31, 2016
Income	53,050	59,561
Expenses	56,740	58,698

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

	(Yen in millions)	
	For the year ended March 31, 2015	For the year ended March 31, 2016
Gross premiums written	1,781,753	1,855,718
Less reinsurance premiums ceded	337,577	348,561
Net	1,444,176	1,507,157

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

	(Yen in millions)	
	For the year ended March 31, 2015	For the year ended March 31, 2016
Gross claims paid	1,011,039	1,012,433
Less claim recoveries from reinsurance ceded	200,186	211,533
Net	810,853	800,899

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

	(Yen in millions)	
	For the year ended March 31, 2015	For the year ended March 31, 2016
Commissions and collection expenses paid	284,220	295,789
Less reinsurance commissions received	30,407	32,653
Net	253,813	263,136

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

	(Yen in millions)	
	For the year ended March 31, 2015	For the year ended March 31, 2016
Gross provision for outstanding claims (except for (b))	(4,935)	31,063
Less reinsurance recoverable on unpaid losses	8,008	22,455
Net (a)	(12,944)	8,607
Provision for/(reversal of) outstanding claims relating to earthquakes and compulsory automobile liability insurance (b)	1,547	207
Total (a) + (b)	(11,397)	8,815

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, 2015	For the year ended March 31, 2016
Gross provision for ordinary underwriting reserves	61,988	65,520
Less reinsurance recoverable on underwriting reserves	3,012	4,055
Net (a)	58,975	61,465
Provision for/(reversal of) refund reserves	(75,052)	(97,008)
Less reinsurance recoverable on refund reserves	(0)	(1)
Net (b)	(75,051)	(97,006)
Reversal of other underwriting reserves (c)	37,645	65,642
Total (a) + (b) + (c)	21,569	30,101

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

	(Yen in millions)	
	For the year ended March 31, 2015	For the year ended March 31, 2016
Interest on deposits and savings	1,178	1,461
Interest on call loans	29	34
Interest on receivables under resale agreements	39	35
Interest on monetary claims bought	963	765
Interest and dividends income on investments in securities	95,382	102,219
Interest on loans	7,522	6,234
Rental income on properties	5,387	6,135
Other interest and dividends income	114	103
Total	110,618	116,990

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, 2015	For the year ended March 31, 2016
1,064	(1,603)

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

(Yen in millions)	
For the year ended March 31, 2015	For the year ended March 31, 2016
7,031	(12,460)

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, 2015	For the year ended March 31, 2016
Net income/(loss) per share (in Yen)	63.45	81.15
Net income/(loss) attributable to common stock (Yen in millions)	89,114	113,970
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, 2015, diluted net income/(loss) per share is not disclosed.
2. Since there was no potential dilution for the year ended March 31, 2016, 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, 2016

Other extraordinary losses represent system-related costs that were recognized by the reorganization by function.

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, 2015	For the year ended March 31, 2016
Statutory income tax rate	30.7	28.8
Increase/(decrease) from:		
Tax exempted dividends income	(6.7)	(5.9)
Effects of changes in income tax rate	11.0	4.3
Increase/(decrease) in valuation allowance	(0.9)	(1.2)
Others	1.1	1.0
Effective income tax rate	35.2	27.0

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

8. Related party transactions are as follows:

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.

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, 2016

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	86,627	-	-

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, 2016.

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, 2015 and 2016

(With Independent Auditor's Report Thereon)

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

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



Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Mitsui Sumitomo Insurance Company, Limited and its consolidated subsidiaries, which comprise the consolidated balance sheets as of March 31, 2015 and 2016, 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 misstatement, 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, 2015 and 2016, 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, 2016
Tokyo, Japan

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

As of March 31, 2015 and 2016

	2015	2016
	(Yen in millions)	
<u>Assets</u>		
Assets		
Cash, deposits and savings	¥ 426,997	691,961
Call loans	40,000	-
Receivables under resale agreements	36,497	29,999
Monetary claims bought	102,423	90,694
Money trusts	13,048	11,664
Investments in securities	5,445,215	5,462,625
Loans	498,658	448,697
Tangible fixed assets:		
Land	93,498	85,703
Buildings	136,297	135,924
Construction in progress	1,972	1,097
Other tangible fixed assets	<u>13,359</u>	<u>19,398</u>
Total tangible fixed assets	<u>245,128</u>	<u>242,124</u>
Intangible fixed assets:		
Software	32,373	43,141
Goodwill	49,975	173,110
Other intangible fixed assets	<u>23,156</u>	<u>234,454</u>
Total intangible fixed assets	<u>105,504</u>	<u>450,706</u>
Other assets	514,889	818,767
Deferred tax assets	5,306	5,348
Customers' liabilities under acceptances and guarantees	49,000	43,000
Bad debt reserve	<u>(8,654)</u>	<u>(8,620)</u>
 Total assets	 ¥ <u>7,474,016</u>	 <u>8,286,970</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets (Continued)

	2015	2016
	(Yen in millions)	
<u>Liabilities and Net Assets</u>		
Liabilities		
Policy liabilities:		
Outstanding claims	¥ 909,232	1,372,046
Underwriting reserves	<u>3,457,475</u>	<u>3,747,432</u>
Total policy liabilities	<u>4,366,708</u>	<u>5,119,479</u>
Bonds issued	176,188	299,841
Other liabilities	481,759	745,514
Liabilities for pension and retirement benefits	123,541	169,546
Reserve for retirement benefits for officers	912	761
Accrued bonuses for employees	15,338	25,456
Reserves under the special laws:		
Reserve for price fluctuation	<u>60,519</u>	<u>64,133</u>
Total reserves under the special laws	<u>60,519</u>	<u>64,133</u>
Deferred tax liabilities	265,231	178,176
Acceptances and guarantees	<u>49,000</u>	<u>43,000</u>
Total liabilities	<u>5,539,199</u>	<u>6,645,909</u>
Net Assets		
Shareholders' equity:		
Common stock	139,595	139,595
Capital surplus	86,722	86,722
Retained earnings	<u>366,290</u>	<u>446,006</u>
Total shareholders' equity	<u>592,608</u>	<u>672,324</u>
Accumulated other comprehensive income/(loss):		
Net unrealized gains/(losses) on investments in securities	1,182,736	904,253
Net deferred gains/(losses) on hedges	32,140	40,113
Foreign currency translation adjustments	89,349	19,053
Accumulated actuarial gains/(losses) on retirement benefits	<u>10,030</u>	<u>(20,573)</u>
Total accumulated other comprehensive income/(loss)	<u>1,314,256</u>	<u>942,848</u>
Non-controlling interests	<u>27,952</u>	<u>25,888</u>
Total net assets	<u>1,934,817</u>	<u>1,641,061</u>
Total liabilities and net assets	¥ <u>7,474,016</u>	<u>8,286,970</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, 2015 and 2016

	2015	2016
	(Yen in millions)	
<u>Ordinary income and expenses</u>		
Ordinary income:		
Underwriting income:		
Net premiums written	¥ 1,696,608	1,779,922
Deposit premiums from policyholders	104,342	84,712
Investment income on deposit premiums from policyholders	39,981	37,567
Life insurance premiums	6,893	9,679
Reversal of outstanding claims	9,497	-
Other underwriting income	7,412	505
Total underwriting income	<u>1,864,735</u>	<u>1,912,386</u>
Investment income:		
Interest and dividends income	115,532	120,530
Investment gains on money trusts	1,268	739
Gains on sales of securities	95,022	107,374
Gains on redemption of securities	1,699	610
Gains on derivative transactions	-	19,820
Other investment income	11,090	3,136
Transfer of investment income on deposit premiums from policyholders	<u>(39,981)</u>	<u>(37,567)</u>
Total investment income	<u>184,632</u>	<u>214,645</u>
Other ordinary income:		
Gains on equity method investments	1,302	2,245
Other ordinary income	<u>8,333</u>	<u>7,341</u>
Total other ordinary income	<u>9,635</u>	<u>9,587</u>
Total ordinary income	<u>2,059,003</u>	<u>2,136,619</u>
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	928,362	926,282
Loss adjustment expenses	95,470	95,656
Commissions and collection expenses	287,874	301,470
Maturity refunds to policyholders	210,769	211,446
Dividends to policyholders	796	967
Life insurance claims	11	24
Provision for outstanding claims	-	13,588
Provision for underwriting reserves	29,205	56,925
Other underwriting expenses	<u>2,274</u>	<u>4,318</u>
Total underwriting expenses	<u>1,554,763</u>	<u>1,610,680</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income (Continued)

	2015	2016
	(Yen in millions)	
Investment expenses:		
Investment losses on money trusts	¥ -	536
Losses on sales of securities	2,256	5,592
Impairment losses on securities	3,782	8,686
Losses on redemption of securities	826	1,061
Losses on derivative transactions	3,988	-
Other investment expenses	<u>7,340</u>	<u>16,658</u>
Total investment expenses	<u>18,195</u>	<u>32,535</u>
Operating expenses and general and administrative expenses	<u>280,109</u>	<u>293,588</u>
Other ordinary expenses:		
Interest expense	5,999	6,205
Losses on bad debts	20	82
Other ordinary expenses	<u>799</u>	<u>2,172</u>
Total other ordinary expenses	<u>6,819</u>	<u>8,460</u>
Total ordinary expenses	<u>1,859,888</u>	<u>1,945,264</u>
Ordinary profit/(loss)	<u>199,114</u>	<u>191,354</u>
<u>Extraordinary income and losses</u>		
Extraordinary income:		
Gains on sales of fixed assets	8,817	1,813
Other extraordinary income	1,800	8,807
Total extraordinary income	<u>10,617</u>	<u>10,621</u>
Extraordinary losses:		
Losses on sales of fixed assets	2,543	558
Impairment losses on fixed assets	1,400	8,779
Provision for reserves under the special laws:		
Provision for reserve for price fluctuation	<u>40,788</u>	<u>3,613</u>
Total provision for reserves under the special laws	<u>40,788</u>	<u>3,613</u>
Other extraordinary losses	<u>-</u>	<u>1,139</u>
Total extraordinary losses	<u>44,732</u>	<u>14,090</u>
Income/(loss) before income taxes	<u>164,999</u>	<u>187,884</u>
Income taxes – current	¥ 16,408	43,642
Income taxes - deferred	<u>40,635</u>	<u>5,979</u>
Total income taxes	<u>57,043</u>	<u>49,621</u>
Net income/(loss)	¥ <u>107,956</u>	<u>138,262</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income (Continued)

	2015	2016
	(Yen in millions)	
Net income/(loss) attributable to non-controlling interests	2,722	2,547
Net income/(loss) attributable to owners of the parent	105,233	135,715

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, 2015 and 2016

		2015	2016
		(Yen in millions)	
Net income/(loss)	¥	107,956	138,262
Other comprehensive income/(loss):			
Net unrealized gains/(losses) on investments in securities		362,414	(276,477)
Net deferred gains/(losses) on hedges		8,709	7,973
Foreign currency translation adjustments		51,503	(66,191)
Actuarial gains/(losses) on retirement benefits		12,432	(30,558)
Share of other comprehensive income/(loss) of equity method investments		<u>7,885</u>	<u>(9,877)</u>
Total other comprehensive income/(loss)		<u>442,946</u>	<u>(375,132)</u>
Total comprehensive income/(loss)	¥	<u>550,902</u>	<u>(236,869)</u>
Allocation:			
Comprehensive income/(loss) attributable to owners of the parent	¥	546,245	(235,692)
Comprehensive income/(loss) attributable to non-controlling interests		4,657	(1,176)

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, 2015 and 2016

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) attributable to owners of the parent			105,233	105,233
Changes in equity resulted from transactions with non-controlling interests		(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)					Non-controlling 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) attributable to owners of the parent							105,233
Changes in equity resulted from transactions with non-controlling interests							(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 Changes in Net Assets (Continued)

2016

(Yen in millions)

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Total shareholders' equity
Beginning balance	¥ 139,595	86,722	366,290	592,608
Cumulative effect of changing accounting policies				-
Beginning balance (adjusted)	139,595	86,722	366,290	592,608
Changes for the year:				
Dividends paid			(55,999)	(55,999)
Net income/(loss) attributable to owners of the parent			135,715	135,715
Changes in equity resulted from transactions with non-controlling interests				-
Net changes of items other than shareholders' equity				
Total changes for the year	-	-	79,716	79,716
Ending balance	¥ 139,595	86,722	446,006	672,324

	Accumulated other comprehensive income/(loss)					Non-controlling 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	¥ 1,182,736	32,140	89,349	10,030	1,314,256	27,952	1,934,817
Cumulative effect of changing accounting policies					-		-
Beginning balance (adjusted)	1,182,736	32,140	89,349	10,030	1,314,256	27,952	1,934,817
Changes for the year:							
Dividends paid							(55,999)
Net income/(loss) attributable to owners of the parent							135,715
Changes in equity resulted from transactions with non-controlling interests							-
Net changes of items other than shareholders' equity	(278,482)	7,973	(70,295)	(30,603)	(371,408)	(2,063)	(373,472)
Total changes for the year	(278,482)	7,973	(70,295)	(30,603)	(371,408)	(2,063)	(293,756)
Ending balance	¥ 904,253	40,113	19,053	(20,573)	942,848	25,888	1,641,061

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, 2015 and 2016

	2015	2016
	(Yen in millions)	
I. Cash flows from operating activities:		
Income/(loss) before income taxes	¥ 164,999	187,884
Adjustments for:		
Depreciation	27,056	23,849
Impairment losses on fixed assets	1,400	8,779
Amortization of goodwill	4,102	4,209
Increase/(decrease) in outstanding claims	(8,144)	14,684
Increase/(decrease) in underwriting reserves	29,024	56,946
Increase/(decrease) in bad debt reserve	(9,860)	(3,772)
Increase/(decrease) in reserve for retirement benefits for officers	(158)	(150)
Increase/(decrease) in accrued bonuses for employees	1,484	462
Increase/(decrease) in liabilities for pension and retirement benefits	(4,913)	(1,983)
Increase/(decrease) in reserve for price fluctuation	40,788	3,613
Interest and dividends income	(115,532)	(120,530)
Losses/(gains) on investments in securities	(89,855)	(92,644)
Losses/(gains) on derivative transactions	3,988	(19,820)
Interest expense	5,999	6,205
Foreign exchange losses/(gains)	(9,195)	9,144
Losses/(gains) on disposal of tangible fixed assets	(6,273)	(1,254)
Losses/(gains) on equity method investments	(1,302)	(2,245)
Decrease/(increase) in other assets	34,889	4,572
Increase/(decrease) in other liabilities	64,675	(34,388)
Other, net	(7,232)	(4,441)
Subtotal	125,942	39,119
Interest and dividends received	112,692	113,799
Interest paid	(5,991)	(6,087)
Income taxes refunded/(paid)	(12,560)	(18,684)
Net cash provided by/(used in) operating activities (a)	220,082	128,146

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

	2015	2016
	(Yen in millions)	
II. Cash flows from investing activities:		
Net decrease/(increase) in deposits and savings	¥ 8,866	748
Purchase of monetary claims bought	(5,998)	-
Proceeds from sales and redemption of monetary claims bought	14,494	7,916
Purchase of money trusts	(10,015)	(16)
Proceeds from sales of money trusts	8,949	41
Purchase of securities	(1,033,498)	(863,672)
Proceeds from sales and redemption of securities	818,887	1,134,187
Investment in loans	(97,186)	(83,746)
Collection of loans	135,460	133,598
Other, net	(5,214)	29,828
Subtotal (b)	(165,254)	358,885
(a + b)	54,828	487,031
Acquisition of tangible fixed assets	(10,587)	(8,409)
Proceeds from sales of tangible fixed assets	12,270	3,401
Acquisition of intangible fixed assets	(7,053)	(9,927)
Acquisition of shares of subsidiaries resulting in changes in scope of consolidation	-	(574,189)
Net payments for sale of subsidiaries resulting in changes in scope of consolidation	-	(7,554)
Other, net	243	(266)
Net cash provided by/(used in) investing activities	(170,381)	(238,060)
III. Cash flows from financing activities:		
Proceeds from borrowings	-	436,767
Repayments of borrowings	-	(240,000)
Issuance of bonds	-	148,967
Redemption of bonds	-	(70,000)
Dividends paid to non-controlling interests	(1,409)	(1,382)
Other, net	(1,435)	(844)
Net cash provided by/(used in) financing activities	(2,845)	273,507
IV. Effect of exchange rate changes on cash and cash equivalents	19,874	(14,199)
V. Net increase/(decrease) in cash and cash equivalents	66,730	149,393
VI. Cash and cash equivalents at beginning of year	397,857	466,186
VII. Decrease in cash and cash equivalents due to exclusion from scope of consolidation	-	(699)
VII. Increase in cash and cash equivalents due to merger with unconsolidated subsidiaries	1,598	-
VIII. Cash and cash equivalents at end of year	¥ 466,186	614,880

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, 2015 and 2016

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

90 companies

Major consolidated subsidiaries are as follows:

MSIG Holdings (Americas), Inc.

MS Amlin plc

MSIG Insurance (Malaysia) Bhd.

Changes in scope of consolidation

MS Amlin plc and other 56 companies have been included in the scope of consolidation since the year ended March 31, 2016 due to acquisition of shares by the Company.

Cardinal Reinsurance Limited (formerly Mitsui Sumitomo Reinsurance Limited) has been excluded from the scope of consolidation during the year ended March 31, 2016 due to sales of shares. Mitsui Sumitomo Insurance (London) Limited has been excluded from the scope of consolidation during the year ended March 31, 2016 as it has been substantially liquidated and its effect on consolidated net income and retained earnings are not considered material.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

(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.

3. Application of equity method

(1) Number of associates accounted for under the equity method

10 companies

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

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

Changes in scope of application of equity method

Miles Smith Holdings Limited and Manchester Underwriting Management Limited have become equity method affiliates during the year ended March 31, 2016 due to acquisition of shares of MS Amlin plc by the Company.

(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 MS Amlin plc and 88 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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

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) Trading securities are valued at their year-end market prices.
- (ii) Held-to-maturity securities are valued at amortized cost.
- (iii) 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.
- (iv) 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.

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

Derivative financial instruments are valued at fair value.

- (3) Depreciation methods of significant depreciable assets

- (i) Depreciation of tangible fixed assets is computed using the straight-line method.

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

The Company and its domestic consolidated subsidiaries have changed the depreciation method of tangible fixed assets from the declining-balance method to the straight-line method since the year ended March 31, 2016. Previously, depreciation of tangible fixed assets held by the Company and its domestic consolidated subsidiaries was computed using the declining-balance method, except for buildings (excluding fixtures) acquired on or after April 1, 1998, to which the straight-line method was applied.

MS&AD Insurance Group to which the Company belongs has been endeavoring to enhance the efficiency of its business management as a group and expand its international business with an aim to become one of the top global insurance and financial groups since April 1, 2010, when it was established. MS&AD Insurance Group has also moved forward with the reorganization by function as planned in "Next

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

Challenge 2017" medium-term management plan, and most of the individual reorganization plans had been put in practice by the end of the previous year.

With the reorganization by function taking place, MS&AD Insurance Group reviewed its accounting policies including those applied by overseas subsidiaries and determined that it is more appropriate to adopt the straight-line depreciation method for tangible fixed assets for the following reasons:

- (a) After the reorganization by function, it is expected that tangible fixed assets held by the Company and its domestic consolidated subsidiaries will be used stably over their useful lives. Therefore, by adopting the straight-line method, in which an equal amount of expenses is recognized over useful lives of tangible fixed assets, it is considered that the actual usage of tangible fixed assets will be more appropriately reflected in profit and loss for each reporting period.
- (b) By adopting the straight-line method, MS&AD Insurance Group will be able to unify accounting policies applied by domestic consolidated subsidiaries with those applied by overseas consolidated subsidiaries that have been using the straight-line method, and be able to provide more useful financial information.

As a result of the change, Ordinary profit/(loss) and Income/(loss) before income taxes increased by ¥3,217 million, compared with the amounts calculated by the previous accounting 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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

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

(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 overseas subsidiaries are translated into Japanese yen using the

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

spot exchange rate prevailing at their respective year-ends, while shareholders' equity is translated at the historical rates. Income and expenses of overseas consolidated 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 Non-controlling 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 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 interest rates of loans, bonds and borrowings are accounted for under the deferred hedge method or the exceptional method when they meet certain criteria.

Gains and losses on interest rate and currency swap contracts used for hedging risks of

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

variability in foreign exchange rates and interest rates on foreign currency borrowings are accounted for under the integrated method when they meet certain criteria. The integrated method is to hedge foreign exchange risks and interest rate risks using the allocation method and the exceptional method, respectively.

Certain overseas consolidated subsidiaries use certain foreign currency borrowings and currency option contracts for hedging risks of variability in foreign exchange rates on investments in subsidiaries. Gains and losses on those financial instruments are accounted for under the deferred hedge method. In addition, certain foreign exchange forward contracts are used for hedging instruments in certain overseas consolidated subsidiaries and those are accounted for under the fair value hedge method.

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, when the interest rate swap contracts meet the criteria for application of the exceptional method, or when the interest rate and currency swap contracts meet the criteria for application of the integrated 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 presentation

The Company has made a change in presentation of net income and presentation of minority interests to non-controlling interests in accordance with Paragraph 39 of the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No.22 issued on September 13, 2013). The previous year's presentation has been revised to conform to the current year's presentation.

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, 2015 and 2016

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

	(Yen in millions)	
	March 31, 2015	March 31, 2016
Accumulated depreciation	287,319	295,893
Accelerated depreciation	14,649	14,418

(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, 2015 and 2016 were ¥14,649 million and ¥14,418 million, respectively.

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

	(Yen in millions)	
	March 31, 2015	March 31, 2016
Investments in securities (Domestic stocks)	11,464	13,713
Investments in securities (Foreign securities)	145,471	141,057
Investments in securities (Other securities)	9,214	8,805

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, 2015	March 31, 2016
Loans to borrowers in bankruptcy	3	1
Overdue loans	370	161
Loans overdue for three months or more	501	587
Restructured loans	556	516
Total	1,432	1,265

(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, 2015	March 31, 2016
Investments in securities	121,280	234,550
Cash, deposits and savings	7,666	21,934
(Note) The amounts in the above table primarily consist of collateral assets required for international 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, 2015	March 31, 2016
59,600	109,244

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, 2015	March 31, 2016
Commercial papers	23,997	14,999
Securities	4,751	8,561

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

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

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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

March 31, 2016

The Company provides guarantees on transactions conducted by a limited partnership entity. Aggregate net present value of these transactions was ¥202,597 million in a negative liability position as of March 31, 2016. This amount was not included in Customers' liabilities under acceptances and guarantees or Acceptances and guarantees since there was no substantial exposure.

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

(Yen in millions)	
March 31, 2015	March 31, 2016
295	-

9. 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.

- (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, market liquidity risks and other 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

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Notes to Consolidated Balance Sheets (Continued)

exchange forward contracts, currency options, and interest rate and currency swaps 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

The Group manages risks in accordance with the basic policy for risk management and internal policies for asset management risks, which stipulate the definition of risks and management method established by the Board of Directors. At the Company, the risk management department is segregated from the trading and the back-office departments and maintains a structure which enables to exercise organizational checks and balances. In addition, the risk management department assesses, analyzes, and manages risks by quantifying market and credit risks using the VaR (Value-at-Risk) method and risk limit management based on asset and liability position, 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. In addition to monitoring of risk amount by quantifying risks using the VaR method as described above, the Company manages market risks through assessment of potential risks that cannot be identified using the VaR method, analysis of sensitivity of existing assets to changes in interest rates, stock prices and foreign exchange rates and analysis of concentration and weakness of portfolio.

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

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. Liquidity risk management

The Group maintains and operates a funding and market liquidity risk management structure in accordance with its internal policies for liquidity risk management. The Group's treasury management classifies funding needs into "ordinary" and "emergency" depending on the urgency level and oversees operation and management for the liquidity in each level, which gives the foremost consideration to the liquidity risk. The treasury management also ensures diversification of 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, 2015 and 2016 together with their differences. The following tables exclude financial instruments in which the fair values are not practically determinable (see Note 2).

March 31, 2015

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Notes to Consolidated Balance Sheets (Continued)

(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:			
Trading 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.

March 31, 2016

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

(Yen in millions)

	Carrying amount	Fair value	Difference
(i) Cash, deposits and savings	691,961	691,954	(7)
(ii) Call loans	-	-	-
(iii) Receivables under resale agreements	29,999	29,999	-
(iv) Monetary claims bought	90,694	90,694	-
(v) Money trusts	11,664	11,664	-
(vi) Investments in securities:			
Trading securities	698,137	698,137	-
Available-for-sale securities	4,531,563	4,531,563	-
(vii) Loans	448,697		
Bad debt reserve (*1)	(121)		
	448,575	458,971	10,396
Total assets	6,502,598	6,512,986	10,388
Bonds issued	299,841	316,454	16,613
Total liabilities	299,841	316,454	16,613
Derivative transactions (*2):			
Hedge accounting not applied	19,808	19,808	-
Hedge accounting applied	39,833	39,833	-
Total derivative transactions	59,641	59,641	-

(*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.

(iv) Monetary claims bought

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

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 venders 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, the fair value is determined based on "Reference Statistical Prices for OTC Bond Transactions" published by the Japan Securities Dealers Association, prices quoted by counterparty financial institutions, or other appropriate method.

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

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

counterparty financial institutions or prices calculated by the option pricing model.

(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, 2015	March 31, 2016
Unlisted stocks and other assets invested in unconsolidated subsidiaries and associates	166,150	163,577
Other unlisted stocks	46,451	26,919
Partnership investments comprised of unlisted stocks	53,868	42,426
Total	266,470	232,924

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.

10. 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, 2015	March 31, 2016
Carrying amount	39,034	37,547
Fair value	96,226	105,082

(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.

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

11. Business combination

(Business combination through acquisition)

The Company acquired shares of Amlin plc ("Amlin"), a holding company which operates the insurance business globally, mainly in the Lloyd's insurance market in the UK. Amlin became a wholly-owned subsidiary of the Company, and was rebranded to MS Amlin plc.

(1) Overview of business combination

(i) Name and business description of acquired company

Name of acquired company: Amlin plc

Description of business: Holding company with non-life insurance subsidiaries and other subsidiaries and associates

(ii) Primary reasons for business combination

With the acquisition of Amlin, the Company aims to establish a leading position in the global insurance market, enhance its operating base through diversified portfolios, and maximize synergies globally, leveraging the strength of the Company and Amlin.

(iii) Date of business combination

February 1, 2016

(iv) Legal form of business combination

Acquisition of shares

(v) Name of acquired company after the business combination

MS Amlin plc

(vi) Percentage share of voting rights acquired

100%

(vii) Primary reasons for determination of controlling company

The Company is the controlling entity, as the Company acquired 100% of voting rights of Amlin.

(2) Period of the acquired company's financial results included in the consolidated financial statements

The acquired company's financial results are not included in the consolidated statement of income for the year ended March 31, 2016, because the deemed acquisition date was December 31, 2015 and the acquired company is consolidated based on their financial statements as of December 31, 2015.

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

(3) Acquisition cost and breakdown by class of consideration

	(GBP in millions)
Consideration for acquisition	Cash 3,401
Total acquisition cost	3,401

(4) Description and amount of major acquisition-related costs

Advisory fee	¥3,739 million
UK Stamp duty	¥3,141 million

(5) Amount and source of goodwill and amortization method and period

(i) Amount of goodwill

GBP 731 million

The amount of goodwill is calculated provisionally, as the purchase price allocation has not been completed.

(ii) Source of goodwill

The investment amount (acquisition cost) under the share acquisition agreement exceeded the net amount of assets acquired and liabilities assumed.

(iii) Amortization method and period

The goodwill is to be amortized using the straight-line method over 20 years.

(6) Amounts of assets acquired and liabilities assumed on acquisition date and their major components

	(GBP in millions)
Investments in securities	3,919
Intangible fixed assets	1,266
Other assets	2,823
Total assets	8,008
Policy liabilities	4,352
Other liabilities	982
Total liabilities	5,334

The amount of assets acquired and liabilities assumed is calculated provisionally, as the purchase price allocation has not been completed.

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

(7) Purchase price allocation

The Company provisionally accounted for the business combination based on the relevant information available as of March 31, 2016, because the acquisition date was December 31, 2015 and the purchase price allocation has not been completed.

(8) Estimated amount of impact on the consolidated statement of income for the year ended March 31, 2016, assuming that the business combination had been completed on the commencement date of the year

	(Yen in millions)
Net premiums written	451,805
Ordinary profit/(loss)	24,333
Net income/(loss) attributable to owners of the parent	23,181

(Calculation method for the estimated amount)

The estimated amount of impact on the consolidated statement of income was calculated as a difference between Net premiums written, Ordinary profit/(loss) and Net income/(loss) attributable to owners of the parent calculated assuming that the business combination had been completed on the commencement date of the year and those in the consolidated statement of income of the acquired company as of and for the year ended March 31, 2016. The amount of amortization was calculated assuming that intangible fixed assets including goodwill recognized at the time of the business combination had been recognized on the commencement date of the current year.

The information above has not been audited.

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

12. Adjustments to deferred tax assets and liabilities and others due to changes in income tax rates are as follows:

In accordance with the "Act for Partial Revision of the Income Tax Act etc." (Act No.15 of 2016) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 13 of 2016) enacted by the Diet on March 29, 2016, the corporate and local tax rates will be reduced from the year commencing on or after April 1, 2016.

Accordingly, the statutory income tax rates to determine deferred tax assets and liabilities for temporary differences expected to reverse in the years commencing on April 1, 2016 and 2017, and those in the years commencing on or after April 1, 2018 are reduced from 28.8% to 28.2% and 27.9%, respectively.

The effect of this change was decreases in Deferred tax assets of ¥1 million, Underwriting reserves of ¥93 million and Deferred tax liabilities of ¥4,504 million and increases in Net unrealized gains/(losses) on investments in securities of ¥10,959 million and Income taxes-deferred of ¥6,721 million. As a result, Net income/(loss) attributable to owners of the parent decreased by ¥6,649 million.

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

	March 31, 2015	March 31, 2016
Net assets per share (in Yen)	1,357.77	1,150.07
Non-controlling interests deducted from net assets (Yen in millions)	27,952	25,888
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, 2015 and 2016

1. Major components of business expenses are as follows:

	(Yen in millions)	
	For the year ended March 31, 2015	For the year ended March 31, 2016
Commission expenses	305,415	321,272
Salaries	144,708	148,395

(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, 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)

For the year ended March 31, 2016

(Yen in millions)

Use	Category	Description	Impairment losses on fixed assets		
				Breakdown	
Investment properties	Land and buildings	A building for rent in Nagano	110	Land Buildings	34 75
Idle real estate and real estate for sale	Land and buildings	4 properties, including a office building in Tokyo	8,184	Land Buildings	7,221 963
Other	Other intangible fixed assets	Software related to the insurance business operations	485	—	—

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 or determined to be closed, ¥8,779 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.

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.

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Notes to Consolidated Statements of Income (Continued)

(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

For the year ended March 31, 2016

Other extraordinary income represents reversal of Foreign currency translation adjustments related to Mitsui Sumitomo Insurance (London) Limited.

4. Details of Other extraordinary losses are as follows:

For the year ended March 31, 2016

Other extraordinary losses represent system costs that were recognized by the reorganization by function.

5. The amounts of net income/(loss) attributable to owners of the parent per share are as follows:

	For the year ended March 31, 2015	For the year ended March 31, 2016
Net income/(loss) attributable to owners of the parent per share (in Yen)	74.93	96.63

(Notes)

- Since there was no potential dilution for the years ended March 31, 2015 and 2016, diluted net income/(loss) per share is not disclosed.
- The basis of calculation is as follows:

	For the year ended March 31, 2015	For the year ended March 31, 2016
Net income/(loss) attributable to owners of the parent (Yen in millions)	105,233	135,715
Average outstanding common stock during the year (in thousands of shares)	1,404,402	1,404,402

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Notes to Consolidated Statement of Comprehensive Income

For the years ended March 31, 2015 and 2016

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

	2015	2016
	(Yen in millions)	
Net unrealized gains/(losses) on investments in securities:		
Gains/(losses) arising during the period	574,465	(297,924)
Reclassification adjustments	<u>(98,067)</u>	<u>(102,260)</u>
Before income tax effect adjustments	476,398	(400,184)
Income tax effects	<u>(113,984)</u>	<u>123,707</u>
Net unrealized gains/(losses) on investments in securities	<u>362,414</u>	<u>(276,477)</u>
Net deferred gains/(losses) on hedges:		
Gains/(losses) arising during the period	16,489	16,202
Reclassification adjustments	<u>(5,158)</u>	<u>(5,659)</u>
Before income tax effect adjustments	11,330	10,542
Income tax effects	<u>(2,620)</u>	<u>(2,569)</u>
Net deferred gains/(losses) on hedges	<u>8,709</u>	<u>7,973</u>
Foreign currency translation adjustments:		
Gains/(losses) arising during the period	50,820	(55,652)
Reclassification adjustments	<u>683</u>	<u>(10,539)</u>
Foreign currency translation adjustments	<u>51,503</u>	<u>(66,191)</u>
Actuarial gains/(losses) on retirement benefits:		
Gains/(losses) arising during the period	15,724	(42,487)
Reclassification adjustments	<u>1,765</u>	<u>(63)</u>
Before income tax effect adjustments	17,489	(42,550)
Income tax effects	<u>(5,057)</u>	<u>11,991</u>
Actuarial gains/(losses) on retirement benefits	<u>12,432</u>	<u>(30,558)</u>
Share of other comprehensive income/(loss) of equity method investments:		
Gains/(losses) arising during the period	9,404	(8,307)
Reclassification adjustments	<u>(1,518)</u>	<u>(1,570)</u>
Share of other comprehensive income/(loss) of equity method investments	<u>7,885</u>	<u>(9,877)</u>
Total other comprehensive income/(loss)	<u>442,946</u>	<u>(375,132)</u>

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Notes to Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2015 and 2016

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) Dividends to be paid determined by the Board meeting held on May 19, 2015 include the amount of ¥2,418 million, which corresponds to the consideration of monitoring and management services provided by MS&AD Insurance Group Holdings Inc., the parent of the Company.

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

For the year ended March 31, 2016

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 19, 2015	Common stock	Treasury Discount Bills 33,399	23.78	March 31, 2015	May 26, 2015
Board meeting held on November 16, 2015	Common stock	Treasury Discount Bills 22,600	16.09	-	November 19, 2015

(Notes)

- Dividends paid determined by the Board meeting held on May 19, 2015 include the amount of ¥2,418 million, which corresponds to the consideration of monitoring and management services provided by MS&AD Insurance Group Holdings Inc., the parent of the Company.
- Dividends paid determined by the Board meeting held on November 16, 2015 include the amount of ¥1,736 million, which corresponds to the consideration of monitoring and management services provided by MS&AD Insurance Group Holdings, Inc., the parent of the Company.

(3) Dividends declared effective after March 31, 2016 for which the date of record is in the year ended March 31, 2016

Resolution	Type of shares	Aggregate amount of dividends (Yen in millions)	Source of dividends	Dividends per share (in Yen)	Date of record	Effective date
Board meeting held on May 18, 2016	Common stock	45,814	Retained earnings	32.62	March 31, 2016	May 23, 2016

(Note) Dividends to be paid determined by the Board meeting held on May 18, 2016 include the amount of ¥2,631 million, which corresponds to the consideration of monitoring and management services provided by MS&AD Insurance Group Holdings, Inc., the parent of the Company.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Cash Flows

For the years ended March 31, 2015 and 2016

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

	(Yen in millions)	
	2015	2016
Cash, deposits and savings	426,997	691,961
Call loans	40,000	-
Receivables under resale agreements	36,497	29,999
Monetary claims bought	102,423	90,694
Money trusts	13,048	11,664
Investments in securities	5,445,215	5,462,625
Time deposits with original maturities of more than three months	(133,648)	(141,628)
Monetary claims bought other than cash equivalents	(36,950)	(83,095)
Money trust other than cash equivalents	(13,048)	(11,664)
Investments in securities other than cash equivalents	(5,414,349)	(5,435,677)
Cash and cash equivalents	466,186	614,880

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Cash Flows (Continued)

2. Major components of assets and liabilities of newly consolidated subsidiaries due to acquisition of shares

For the year ended March 31, 2016

MS Amlin plc ("MS Amlin") has been included in the scope of consolidation due to acquisition of shares. The components of assets and liabilities at the acquisition date, the acquisition cost of MS Amlin's shares and net consideration paid for acquisition of MS Amlin are as follows:

	(Yen in millions)
Investments in securities	700,664
Intangible fixed assets	226,335
Other assets	504,698
	1,431,697
Goodwill	130,719
Policy liabilities	(778,126)
Other liabilities	(175,653)
Total liabilities	(953,779)
Foreign currency translation adjustments	19,535
Non-controlling interests	(495)
Acquisition cost of MS Amlin's shares	627,677
Less: Cash and cash equivalents held at MS Amlin	53,488
Net consideration paid for acquisition of MS Amlin	574,189

The Company provisionally accounted for the business combination based on the relevant information available as of March 31, 2016, because the acquisition date was December 31, 2015 and the purchase price allocation has not been completed.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Cash Flows (Continued)

3. Major components of assets and liabilities of subsidiaries that have been excluded from the scope of consolidation due to sales of shares

For the year ended March 31, 2016

Cardinal Reinsurance Limited ("Cardinal Re") has been excluded from the scope of consolidation due to sales of shares. The components of assets and liabilities at the time of sales, the sales value and net payments for sales of Cardinal Re's shares are as follows:

	(Yen in millions)
Assets	17,252
Liabilities	(7,386)
Accumulated other comprehensive income/(loss)	(1,733)
Losses on sales of shares of subsidiaries	800
Sales value of Cardinal Re's shares	7,330
Less: Cash and cash equivalents held at Cardinal Re	14,885
Net payments for sales of Cardinal Re	(7,554)

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