

mitsui sumitomo insurance company limited - new zealand branch

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

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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 2017.

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 end 31 March 2017

	Notes	2017 \$	2016 \$
Gross earned premium	1	7,332,724	7,445,483
Reinsurance expense	2	(3,671,201)	(3,192,515)
Net Premium Revenue		3,661,523	4,252,968
Claims Expense	4	(528,841)	(11,499,835)
Reinsurance and Other Recoveries	1	279,139	7,646,909
Net Claims Expense		(249,702)	(3,852,926)
Commissions		(392,333)	(406,582)
Reinsurance commission income	1	364,451	306,349
Net Acquisition Costs		(27,882)	(100,233)
Underwriting Result		3,383,939	299,809
Operating Expenses	3	(1,150,256)	(1,159,073)
Investment income	1	1,325,520	1,844,119
Sundry income	1	157	1,293
Net Profit Before Tax		3,559,360	986,148
Taxation expense	5	-	-
Net Profit for the Year		3,559,360	986,148
Other comprehensive income for the year		-	-
Total Comprehensive Income for the Year		3,559,360	986,148

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 2017

	2017 \$	2016 \$
Opening Head Office Balance	42,677,752	41,691,604
Net Profit for the Year	3,559,360	986,148
Total Comprehensive Income for the Year	3,559,360	986,148
Closing Head Office Balance	46,237,112	42,677,752

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
For the Year ended 31 March 2017


	Notes	31 March 2017 \$	31 March 2016 \$
Assets			
Cash and Cash Equivalents		58,798,049	59,754,339
Premium Receivables		1,372,160	1,530,360
Taxation Receivable		4,285	-
Other Current Assets	6	1,273,849	1,597,131
Reinsurance Receivable		7,184,574	3,418,220
Reinsurance Recoveries	7	35,757,439	39,533,421
Property, Plant and Equipment	8	5,869	14,985
Total Assets		104,396,225	105,848,456
Liabilities			
Accounts Payable	9	346,650	464,931
Reinsurance Payable		835,271	765,869
Other Current Liabilities	10	311,339	291,585
Unearned Premium Reserve	11	2,457,308	2,784,665
Outstanding Claims Liability	12	51,472,828	56,510,709
Due to Related Parties	16	2,735,717	2,352,945
Total Liabilities		58,159,113	63,170,704
Net Assets		46,237,112	42,677,752
Head Office Account		46,237,112	42,677,752

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

19 JUL 2017

Date

19 JUL 2017

Date

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

STATEMENT OF CASH FLOWS
For the year ended 31 March 2017

	Notes	2017 \$	2016 \$
Cash flows from operating activities			
Premiums received		7,163,567	7,613,763
Reinsurance and other recoveries received		288,767	749,435
Interest received		1,327,005	1,975,805
Claims paid		(5,566,721)	(10,351,135)
Reinsurance premiums paid		(3,244,276)	(3,579,256)
Net acquisition costs		(40,445)	7,347
Operating expenses paid		(884,187)	(521,095)
Net cash (used in) operating activities	18	(956,290)	(4,105,136)
Cash flows from investing activities			
Receipt of investments on maturity		-	500,000
Payments for purchases of plant & equipment		-	-
Net cash from/(used in) investing activities		-	500,000
Net (decrease) in cash and cash equivalents		(956,290)	(3,605,136)
Cash and cash equivalents at the beginning of the financial year		59,754,339	63,359,475
Cash and cash equivalents at the end of the financial year		58,798,049	59,754,339

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

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

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 2017. The financial statements were authorised for issue by the Directors on the 19th July of 2017.

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 22. These relate to the outstanding claims liability and reinsurance recoveries in Notes 12 and 7 respectively. The Branch makes estimates and assumptions in respect to certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Basis of Measurement

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

Presentation and Functional Currency

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

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

Basis of Preparation (Continued)

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.

Outward 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.

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

Significant Accounting Policies (Continued)

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 BAU 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. The earthquake outstanding claims liabilities were evaluated on a claim by claim basis, including information from expert loss adjustors and claim managers

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.

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.

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 2017 (2016: 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.

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

Significant Accounting Policies (Continued)

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

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.

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

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	20%
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 19 Solvency.

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

Significant Accounting Policies (Continued)

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.

NZ IFRS 9 Financial Instruments, 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. The Branch does not consider the impact of this new standard to be significant.

NZ IFRS 17 Insurance Contracts will take effect on the 1st of January 2021. This standard will increase transparency and will give users more insight into an insurer's financial health. NZ IFRS 17 uses a single revenue recognition principle to reflect services provided. Insurers will need to account for business performance at a more granular level. The Branch does not plan to adopt this standard early. The Branch does not consider the impact of the new standard to be significant as it intends to adopt the premium allocation approach (PAA).

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

1. Total Revenue

	2017 \$	2016 \$
Gross written premium	7,005,367	7,395,392
Change in unearned premium reserve	327,357	50,091
Gross Earned Premium	7,332,724	7,445,483
Reinsurance commission income	364,451	306,349
Reinsurance and other recoveries	279,139	7,646,909
Reinsurance Income	643,590	7,953,258
Investment income	1,325,520	1,844,119
Other income	157	1,293
Sundry income	157	1,293
Total Revenue	9,301,991	17,244,153

(A) Premium Revenue

	2017 \$	2016 \$
Direct	7,289,308	7,396,720
Reinsurance	43,416	48,763
Total Gross Earned Premium	7,332,724	7,445,483

(B) Investment Income

	2017 \$	2016 \$
Interest income	-	1,392
Cash and cash equivalents interest income	1,325,520	1,842,727
Total investment Income	1,325,520	1,844,119

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

2. Reinsurance Expenses

	2017 \$	2016 \$
Outward reinsurance premium expense	(3,391,737)	(3,678,530)
Change in unearned reinsurance premium provision	(279,464)	486,015
	(3,671,201)	(3,192,515)

3. Operating Expenses

	2017 \$	2016 \$
Management fee	630,850	641,300
Fees paid to auditors:		
Audit – Statutory financial statements	84,100	81,500
Tax	7,650	6,550
Depreciation	9,116	10,594
Employee benefits	194,757	156,951
Other Expenses	223,783	262,178
Total operating expenses	1,150,256	1,159,073

4. Claims Expense

	2017 \$	2016 \$
Direct	528,841	11,499,835
Reinsurance	-	-
	528,841	11,499,835

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.

2017	Current Year \$	Prior Years \$	Total \$
Gross claims incurred - undiscounted	1,105,107	(599,039)	506,068
Discount movement	(11,527)	34,300	22,773
Gross claims incurred - discounted	1,093,580	(564,739)	528,841
Reinsurance and other recoveries - undiscounted	(275,811)	(1,948)	(277,759)
Discount movement	3,649	(5,029)	(1,380)
Reinsurance and other recoveries - discounted	(272,162)	(6,977)	(279,139)
Net claims incurred	821,418	(571,716)	249,702

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

4. Claims Expense (Continued)

2016	Current Year \$	Prior Years \$	Total \$
Gross claims incurred - undiscounted	4,212,701	7,314,109	11,526,810
Discount movement	(40,106)	13,131	(26,975)
Gross claims incurred - discounted	4,172,595	7,327,240	11,499,835
Reinsurance and other recoveries - undiscounted	(543,338)	(7,106,133)	(7,649,471)
Discount movement	5,319	(2,757)	2,562
Reinsurance and other recoveries - discounted	(538,019)	(7,108,890)	(7,646,909)
Net claims incurred	3,634,576	218,350	3,852,926

Included in reinsurance recoveries is a loss of \$53,810 (2016: loss of \$294,494) 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 12.

5. Taxation Expense

	2017 \$	2016 \$
Reconciliation of effective tax rate		
Profit before tax	3,559,360	986,148
Income tax at Branch tax rate 28% (2016: 28%)	996,621	276,121
Recognition of previously unrecognised tax losses	(996,621)	(276,121)
Total Income Tax Expense	-	-

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

6. Other Current Assets

	2017 \$	2016 \$
Accrued income	50,658	52,143
Deferred acquisition costs	215,891	261,634
Deferred reinsurance premium	866,589	1,146,053
Prepaid expenses	84,018	77,604
GST receivable	56,693	59,697
	1,273,849	1,597,131

(A) Deferred acquisition costs

	2017 \$	2016 \$
Deferred acquisition costs at 1 April	261,634	263,803
Acquisition costs deferred	346,590	404,413
Amortisation charged to the profit or loss	(392,333)	(406,582)
Deferred acquisition costs at 31 March	215,891	261,634

(B) Deferred Reinsurance premium

	2017 \$	2016 \$
Deferred reinsurance premium at 1 April	1,146,053	660,038
Reinsurance premium deferred	3,391,737	3,678,530
Reinsurance premium charged to the profit or loss	(3,671,201)	(3,192,515)
Deferred reinsurance premium at 31 March	866,589	1,146,053

7. Reinsurance Recoveries

	2017 \$	2016 \$
Reinsurance recoveries arising from claims	35,757,439	39,533,421
Reinsurance and other recoveries receivable at 1 April	39,533,421	35,219,522
Recoveries on claims reassessed	6,977	7,108,890
Recoveries received	(407,897)	(237,738)
Transfer of recoveries to receivables	(3,647,224)	(3,095,272)
Recoveries on new claims	272,162	538,019
Reinsurance and other recoveries receivable at 31 March	35,757,439	39,533,421

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

7. Reinsurance Recoveries (Continued)

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 12.

8. Property, Plant and Equipment

	Motor Vehicles	Office Equipment	Total
Cost	\$	\$	\$
Balance at 31 March 2015	41,189	42,344	83,533
Additions	-	-	-
Disposals	-	-	-
Balance at 31 March 2016	41,189	42,344	83,533
Additions	-	-	-
Balance at 31 March 2017	41,189	42,344	83,533
Accumulated depreciation			
Balance at 31 March 2015	18,020	39,934	57,954
Charge for the year	8,650	1,944	10,594
Balance at 31 March 2016	26,670	41,878	68,548
Charge for the year	8,650	466	9,116
Balance at 31 March 2017	35,320	42,344	77,664
Carrying amounts			
At 31 March 2016	14,519	466	14,985
At 31 March 2017	5,869	-	5,869

9. Accounts Payable

	2017 \$	2016 \$
Trade creditors and accruals	230,657	320,474
Government levies	115,993	144,457
	346,650	464,931

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

10. Other Current Liabilities

	2017 \$	2016 \$
Unearned reinsurance commission	153,819	212,125
Non-resident withholding tax	157,520	79,460
	311,339	291,585

(A) Unearned Reinsurance Commission

	2017 \$	2016 \$
Unearned reinsurance commission at 1 April	212,125	106,714
Reinsurance commission deferred	306,145	411,760
Reinsurance commission recognised in profit or loss	(364,451)	(306,349)
Unearned reinsurance commission at 31 March	153,819	212,125

11. Unearned Premium Reserve

	2017 \$	2016 \$
Unearned premium liability	2,457,308	2,784,665
Unearned premium liability at 1 April	2,784,665	2,834,754
Deferral of premium on contracts written at year end	2,457,308	2,784,665
Prior year premium earned	(2,784,665)	(2,834,754)
Unearned premium liability at 31 March	2,457,308	2,784,665

Liability adequacy test

A liability adequacy test ("LAT") was performed as at 31 March 2017 and 31 March 2016. Both tests identified a surplus the calculations for which are disclosed below:

	2017 \$	2016 \$
Gross unearned premium	2,457,308	2,784,665
Deferred reinsurance premium	(866,589)	(1,146,053)
Deferred acquisition expenses – net of reinsurance	(62,072)	(49,509)
Premium available to meet expected claims cost	1,528,647	1,589,103
Net premium liability (including 75% probability of adequacy risk margin)	1,487,839	1,469,820
LAT result	Pass	Pass

The risk margin included in the Branch's expected future cash flows for future claims is 33% (2016: 33%). 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 unchanged from last valuation.

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

12. Outstanding Claims Liability

(A) Gross outstanding claims liability

	2017 \$	2016 \$
Central estimate of outstanding claims liabilities	47,856,194	52,603,536
Discount to present value	(13,674)	(31,279)
Risk margin	3,531,689	3,798,441
Claims handling expense	98,619	140,011
	51,472,828	56,510,709

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 foreign exchange and inflationary assumptions; uncertainty surrounding the outcome of future legal proceedings and uncertainty arising from the claimant's business decision regarding its insured assets. These uncertainties existed during the prior period and are likely to remain for the foreseeable future.

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 2017. Any changes to estimates will be recorded in the accounting period when they become known.

(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.

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

Ultimate claims cost estimate	2011	2012	2013	2014	2015	2016	2017	Total
	\$	\$	\$	\$	\$	\$	\$	\$
At end of accident year	-	-	2,613,262	1,427,174	3,219,289	3,554,776	920,486	920,486
One year later	-	8,631,171	1,862,865	1,150,409	3,011,577	3,393,984		3,393,984
Two years later	150,311,131	7,751,977	1,541,712	1,139,371	3,033,971			3,033,971
Three years later	169,156,948	7,058,354	1,609,955	1,138,867				1,138,867
Four years later	161,445,112	7,506,884	1,609,955					1,609,955
Five years later	169,435,711	7,506,658						7,506,658
Six years later	169,592,705							169,592,705
Total current estimate of ultimate claims costs	169,592,705	7,506,658	1,609,955	1,138,867	3,033,971	3,393,984	920,486	187,196,626
Cumulative payments	128,102,843	2,236,356	1,609,955	1,138,866	3,029,969	2,985,353	237,090	139,340,431
Undiscounted central estimate	41,489,862	5,270,302	-	1	4,002	408,631	683,396	47,856,194
Discount	171	-	-	-	39	4,362	9,102	13,674
Discounted central estimate	41,489,691	5,270,302	-	1	3,963	404,269	674,294	47,842,520
Claims handling expense	6,604	-	-	-	337	34,363	57,315	98,619
Risk margin	2,722,547	527,030	-	-	1,033	105,355	175,724	3,531,689
Gross outstanding claims liability	44,218,842	5,797,332	-	1	5,333	543,987	907,333	51,472,828
Reinsurance recoveries on outstanding claims liability	(35,469,588)	-	-	-	-	(33,416)	(254,435)	(35,757,439)
Net outstanding claims liability	8,749,254	5,797,332	-	1	5,333	510,571	652,898	15,715,389

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

12. Outstanding Claims Liability (Continued)

(C) Reconciliation of movement in outstanding claims

	2017 \$	2016 \$
Outstanding claims liability at 1 April	56,510,710	55,362,010
Claims reassessed	(564,739)	7,327,240
Claims paid	(5,566,723)	(10,351,135)
New claims	1,093,580	4,172,595
Outstanding claims liability at 31 March	51,472,828	56,510,710

13. Deferred Tax

At 31 March 2017 the Branch has unused tax losses of \$82,122,406 (2016: \$83,119,027) for which no deferred tax asset is recognised.

14. Contingent Liabilities

The Branch has no contingent liabilities at balance date (2016: Nil).

15. Commitments

The Branch has no commitments for expenditure at balance date (2016: Nil).

16. 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.

	2017 \$	2016 \$
Transactions with Head Office:		
Reinsurance premiums	545,815	1,101,569
Reinsurance recoveries	(31,066)	(54,140)
Reinsurance commission earned	(106,542)	(219,264)
Other expense paid/ recharged	(25,435)	(49,271)
	382,772	778,894

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

16. Related Party Information (Continued)

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.

	2017 \$	2016 \$
Outstanding balance with Head Office:		
Due to related parties	2,735,717	2,352,945

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

	2017 \$	2016 \$
Transactions with Aioi:		
Management Fees Paid	30,850	41,300

Outstanding balance with Aioi:

Other current assets	84,018	77,604
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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:

	2017 \$	2016 \$
Short-term employee benefits	187,105	150,973

17. Credit Rating

Mitsui Sumitomo Insurance Company Limited has received an A+ (2016: A+) credit rating from Standard and Poor's. The credit rating is an indication of the ability to pay current and future claims.

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

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

	2017 \$	2016 \$
Net profit for the period	3,559,360	986,148
Movement in financial assets at fair value through profit or loss	-	-
Depreciation	9,116	10,594
Change in operating assets and liabilities		
Decrease in premium receivables	158,200	218,370
(Increase) in taxation receivable	(4,285)	-
Increase in reinsurance receivables	(3,766,354)	(2,583,575)
Decrease/(Increase) in reinsurance recoveries	3,775,982	(4,313,899)
Decrease/(Increase) in other current assets	323,282	(158,079)
(Decrease) in accounts payable	(118,281)	(346,884)
Increase in reinsurance payable	69,401	110,827
Increase in other current liabilities	19,754	93,858
(Decrease)/Increase in outstanding claims liability	(5,037,881)	1,148,699
Decrease in unearned premium reserve	(327,356)	(50,089)
Increase in amounts due to related parties	382,772	778,894
Net cash flow from operating activities	(956,290)	(4,105,136)

19. 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 2016 Annual Report and the 31 March 2017 supplement to the Earnings Report available from www.ms-ad-hd.com, as calculated under the Japanese regulations. The 2017 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

	2017 NZD in millions (Unaudited)	2016 NZD in millions (Unaudited)
Actual Solvency Capital [A]	36,249	33,566
Minimum Solvency Capital [B]	11,019	11,456
Solvency Margin [A-B/2]	25,229	27,838
Solvency Ratio [A/B*2]*100	657.9%	586.0%

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

20. 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 \$43,721,627 and \$15,076,422 respectively (2016: \$44,678,833 and \$15,075,506 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 \$9,734,167 (2016: \$9,622,805).

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

	Credit Rating				Total
	AA	A	BBB	Not Rated	
2017	\$	\$	\$	\$	\$
Cash and cash equivalents	58,798,049	-	-	-	58,798,049
Premium receivables	-	-	-	1,372,160	1,372,160
Other current assets – accrued income	50,658	-	-	-	50,658
Reinsurance receivable	1,846,436	5,302,215	-	35,923	7,184,574
Reinsurance recoveries	9,159,637	26,306,012	-	291,790	35,757,439
Total	69,854,780	31,608,227	-	1,699,873	103,162,880

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

20. Financial Risk Management (Continued)

2016	Credit Rating				Total \$
	AA \$	A \$	BBB \$	Not Rated \$	
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	29,147,486	-	301,258	39,533,421
Total	70,686,644	31,754,745	-	1,847,094	104,288,483

As at 31 March 2017 there are no assets that are past due or impaired (2016: Nil).

(B) Liquidity risk

Liquidity risk is the risk that the Branch is unable to convert its financial assets into cash to pay for its financial obligations when they fall due. The Branch has processes in place to monitor and forecast its liquidity position. The Branch maintains sufficient funds at all times to meet the needs of the Branch's operations. In addition to treasury cash held for working capital requirements the Branch may hold additional liquid, term deposits to ensure there are sufficient funds available to meet obligations. All financial assets mature in 0-1 Year.

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

20. Financial risk management (Continued)

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

	Maturing in:				
	0-1 Year	1-2 Year	2-4 Year	No Term	Total
2017	\$	\$	\$	\$	\$
Financial Liabilities					
Reinsurance Payable	835,271	-	-	-	835,271
Due to Related Parties	-	-	-	2,735,717	2,735,717
Trade Creditors and accruals	230,657	-	-	-	230,657
Total	1,065,928	-	-	2,735,717	3,801,645

	Maturing in:				
	0-1 Year	1-2 Year	2-4 Year	No Term	Total
2016	\$	\$	\$	\$	\$
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

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

20. Financial risk management (Continued)

(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 2017, as cumulative claims payments have now exceeded the reinsurance recovery threshold (2016: \$31,265).

(ii) Price risk

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

(iii) Interest rate risk

The exposure to interest rate risk results from the holding of financial assets in the normal course of business. Fixed interest rate assets create exposure in respect of their fair value as interest rates move. Financial assets with floating interest rates create exposure in respect of uncertainty in cash flows as interest rates move due to re-pricing.

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

Cash flow Sensitivity Analysis for Floating Rate Instruments

	Interest Rate Risk		
	Carrying Amount	-1%	+1%
2017	\$	Profit/Equity \$	Profit/Equity \$
Financial Assets			
Cash and Cash	58,798,049	(587,980)	587,980
Equivalents			

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

20. Financial risk management (Continued)

		Interest Rate Risk	
		-1%	+1%
2016	Carrying Amount \$	Profit/Equity \$	Profit/Equity \$
Financial Assets			
Cash and Cash Equivalents	59,754,339	(597,543)	597,543

Fair Value Sensitivity analysis for Fixed Rate Instruments

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 \$
2017			
Financial Assets			
Cash and Cash Equivalents	58,798,049	58,798,049	-
Other Current Assets – Accrued Income	50,658	50,658	-
Total	58,848,707	58,848,707	-

	Total \$	Fair Value through Profit and Loss \$	Financial Liabilities at Amortised Cost \$
Financial Liabilities			
Accounts Payable - Trade Creditors and Accruals	230,657	-	230,657
Reinsurance Payable	835,271	-	835,271
Due to Related Parties	2,735,717	-	2,735,717
Total	3,801,645	-	3,801,645

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

20. Financial risk management (Continued)

	Total	Loans and Receivables	Fair Value through Profit and Loss
2016	\$	\$	\$
Financial Assets			
Cash and Cash Equivalents	59,754,339	59,754,339	-
Other Current Assets – Accrued Income	52,143	52,143	-
Total	59,806,482	59,806,482	-

	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

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

20. Financial risk management (Continued)

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 (2016: 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.

21. 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.

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

21. 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

22. 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-Fergusson (incurred claims) methodology. It has been assumed that incurred claims patterns for each group of business will continue to follow observed historic patterns.

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

Overall, the average weighted term to settlement of claims (of all types, net of reinsurance) is approximately 12 months (2016: 12 months).

(B) Inflation and discount rate

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% per annum (2016: 2.1%).

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

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

22. Actuarial Assumptions and Methods (Continued)

(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 20(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 29% (2016: 28.8%). 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 2017 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% (2016: 75%).

(F) Impact of change in assumptions

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

Variable	Movement in Variable	2017	2016
Discount Rate %	+1%	(4,748)	(11,863)
	-1%	4,748	12,123
IBNR Tail Strengthening	+1% p.a. for 4 Quarters	54,106	80,549

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Risk Margin %	+1%	121,837	131,789
	-1%	(121,837)	(131,789)

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

22. Actuarial Assumptions and Methods (Continued)

(G) Actuarial information

John Smeed (Actuary, Finity) is the actuary who completed the Insurance Liability Valuation Report. He is a Fellow of the New Zealand Society of Actuaries. The actuarial calculations were completed in accordance with New Zealand Society of Actuaries Professional Standard No.4. The effective date of the actuary's report is 31 March 2017.

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 2017 are outlined in note 22 (A) - (E) above.

The actuary has no financial interest in the Branch.

23. 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 2017 or the Branch's financial position as at 31 March 2017.

Independent Auditor's Report

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

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Mitsui Sumitomo Insurance Company Limited - New Zealand Branch ("the Branch") on pages 3 to 34:

- i. present fairly in all material respects the Branch's financial position as at 31 March 2017 and its financial performance and cash flows for the year ended on that date;
- ii. and comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2017;
- the statements of comprehensive income, movements in head office account and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Branch in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report.

Our firm has also provided other assurance 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.



Emphasis of Matter

We draw attention to Note 4 and 12 to the financial statements which explain the considerable uncertainties that exist in measuring outstanding claims liabilities and reinsurance recoveries arising from Canterbury earthquakes which occurred during the preceding years. Our opinion is not modified in respect of this matter.



Use of this Independent Auditor's Report

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the Independent 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 shareholder as a body for our audit work, this report, or any of the opinions we have formed.



Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Branch, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's Responsibilities for the Audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Independent Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx.

This description forms part of our Independent Auditor's Report.



Kay Baldock

For and on behalf of

KPMG
Auckland

19 July 2017

20 July 2017

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 2017

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 2017, 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.

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 and used in accordance with accepted principles and methods. No limitations were placed on us in performing our review, and all data and information requested was provided. In our opinion Mitsui has maintained a solvency margin in excess of the minimum required as at the balance date.

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 'Matthew Clere'.

Matthew Clere

Fellows of the New Zealand Society of Actuaries

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Melbourne

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Level 3, 30 Collins Street
Melbourne, VIC 3000

Auckland

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Level 5, 79 Queen Street
Auckland 1010

20 July 2017

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 2017**

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 2017 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 2017 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 2017 is inappropriate or has been used inappropriately. No limitations were placed on us in performing our review and all data and information requested was provided. In our opinion Mitsui has maintained a solvency margin in excess of the minimum required as at the balance date.

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



Matthew Clere

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MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Financial Statements
For the years ended March 31, 2016 and 2017

(With Independent Auditor's Report Thereon)

A handwritten signature in black ink, featuring a stylized, cursive script.

Teruhiko Ito
Director, Senior Executive Officer
Mitsui Sumitomo Insurance Company, Ltd.

A handwritten signature in black ink, featuring a stylized, cursive script.

Masahiro Matsumoto
Director, Senior Executive Officer
Mitsui Sumitomo Insurance Company, Ltd.



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, 2016 and 2017, 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, 2016 and 2017, and their financial performance for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

June 26, 2017
Tokyo, Japan

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets

As of March 31, 2016 and 2017

	2016	2017
	(Yen in millions)	
<u>Assets</u>		
Assets		
Cash, deposits and savings:		
Cash on hand	¥ 133	81
Deposits in banks	442,420	388,945
Total cash, deposits and savings	442,553	389,027
Receivables under resale agreements	29,999	6,999
Monetary claims bought	28,785	20,393
Money trusts	11,564	3,500
Investments in securities:		
Government bonds	1,278,847	1,263,321
Municipal bonds	91,948	88,898
Corporate bonds	494,579	495,736
Stock	1,756,599	1,806,870
Foreign securities	1,525,945	1,604,888
Other securities	25,817	34,974
Total investments in securities	5,173,738	5,294,691
Loans:		
Policy loans	8,242	7,672
General loans	440,424	410,474
Total loans	448,667	418,146
Tangible fixed assets:		
Land	77,690	77,391
Buildings	127,253	122,668
Construction in progress	33	390
Other tangible fixed assets	11,006	10,272
Total tangible fixed assets	215,984	210,723
Intangible fixed assets:		
Software	23,485	21,902
Other intangible fixed assets	19,554	18,203
Total intangible fixed assets	43,039	40,105

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2016	2017
	(Yen in millions)	
Other assets:		
Premiums receivable	¥ 3,068	3,330
Due from agencies	114,336	117,841
Co-insurance accounts receivable	7,263	9,257
Reinsurance accounts receivable	58,020	56,073
Foreign reinsurance accounts receivable	30,899	37,979
Agency business accounts receivable	583	619
Other receivables	26,530	38,881
Accrued income	6,260	6,228
Guarantee deposits	11,530	10,565
Deposits with Japan Earthquake Reinsurance Co., Ltd.	11,286	6,019
Suspense payments	36,111	38,488
Derivative financial instruments	42,639	25,651
Cash collateral pledged under derivative transactions	-	300
Other assets	<u>1,038</u>	<u>907</u>
Total other assets	349,567	352,144
Customers' liabilities under acceptances and guarantees	45,803	45,520
Bad debt reserve	<u>(3,115)</u>	<u>(4,175)</u>
Total assets	¥ <u>6,786,590</u>	<u>6,777,076</u>

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2016	2017
	(Yen in millions)	
<u>Liabilities and Net Assets</u>		
Liabilities		
Policy liabilities:		
Outstanding claims	¥ 649,729	643,446
Underwriting reserves	<u>3,344,890</u>	<u>3,317,241</u>
Total policy liabilities	3,994,619	3,960,687
Bonds issued	256,191	256,191
Other liabilities:		
Co-insurance accounts payable	10,935	11,120
Reinsurance accounts payable	59,230	63,397
Foreign reinsurance accounts payable	22,171	28,144
Agency business accounts payable	24	12
Borrowings	296,767	196,767
Income taxes payable	31,780	39,277
Deposits received	18,212	32,469
Unearned income	43	31
Other payables	46,819	48,854
Suspense receipts	24,236	23,286
Derivative financial instruments	5,160	1,649
Cash collateral received under derivative transactions	87,988	62,168
Lease obligations	903	1,399
Asset retirement obligations	3,765	3,831
Other liabilities	<u>2,745</u>	<u>2,869</u>
Total other liabilities	610,785	515,281
Reserve for pension and retirement benefits	135,688	136,186
Reserve for retirement benefits for officers	761	612
Accrued bonuses for employees	11,716	10,453
Reserve for reorganization by function	-	3,015
Reserves under the special laws:		
Reserve for price fluctuation	<u>64,133</u>	<u>67,801</u>
Total reserves under the special laws	64,133	67,801
Deferred tax liabilities	139,408	136,275
Acceptances and guarantees	<u>45,803</u>	<u>45,520</u>
Total liabilities	5,259,108	5,132,025

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2016	2017
	(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	16,012	15,840
Retained earnings brought forward	<u>290,143</u>	<u>381,647</u>
Total other retained earnings	<u>306,156</u>	<u>397,487</u>
Total retained earnings	<u>352,644</u>	<u>443,975</u>
Total shareholders' equity	<u>585,347</u>	<u>676,678</u>
Valuation and translation adjustments:		
Net unrealized gains/(losses) on investments in securities	902,019	932,995
Net deferred gains/(losses) on hedges	<u>40,113</u>	<u>35,377</u>
Total valuation and translation adjustments	<u>942,133</u>	<u>968,372</u>
Total net assets	<u>1,527,481</u>	<u>1,645,050</u>
Total liabilities and net assets	¥ <u>6,786,590</u>	<u>6,777,076</u>

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Income

For the years ended March 31, 2016 and 2017

	2016	2017
	(Yen in millions)	
<u>Ordinary income and expenses</u>		
Ordinary income:		
Underwriting income:		
Net premiums written	¥ 1,507,157	1,470,122
Deposit premiums from policyholders	84,712	70,040
Investment income on deposit premiums from policyholders	37,567	35,508
Reversal of outstanding claims	-	6,283
Reversal of underwriting reserves	-	27,649
Other underwriting income	259	44
Total underwriting income	1,629,696	1,609,647
Investment income:		
Interest and dividends income	116,990	116,792
Investment gains on money trusts	739	517
Gains on sales of securities	102,149	71,738
Gains on redemption of securities	541	304
Gains on derivative transactions	3,466	4,405
Other investment income	1,095	780
Transfer of investment income on deposit premiums from policyholders	(37,567)	(35,508)
Total investment income	187,416	159,029
Other ordinary income	5,645	4,181
Total ordinary income	1,822,757	1,772,858
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	800,899	811,476
Loss adjustment expenses	87,427	87,834
Commissions and collection expenses	263,136	251,720
Maturity refunds to policyholders	211,446	167,151
Dividends to policyholders	967	466
Provision for outstanding claims	8,815	-
Provision for underwriting reserves	30,101	-
Foreign exchange losses	1,851	736
Other underwriting expenses	619	519
Total underwriting expenses	1,405,264	1,319,905

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Income (Continued)

	2016	2017
	(Yen in millions)	
Investment expenses:		
Investment losses on money trusts	¥ 536	9
Losses on sales of securities	3,004	4,469
Impairment losses on securities	7,292	497
Losses on redemption of securities	425	447
Foreign exchange losses	9,825	1,624
Other investment expenses	<u>5,652</u>	<u>4,920</u>
Total investment expenses	26,738	11,968
Operating expenses and general and administrative expenses	215,144	217,601
Other ordinary expenses:		
Interest expense	6,173	6,325
Provision for bad debt reserve	-	1,160
Losses on bad debts	4	9
Other ordinary expenses	<u>1,535</u>	<u>345</u>
Total other ordinary expenses	<u>7,713</u>	<u>7,840</u>
Total ordinary expenses	<u>1,654,861</u>	<u>1,557,316</u>
Ordinary profit/(loss)	167,896	215,542
<u>Extraordinary income and losses</u>		
Extraordinary income:		
Gains on sales of fixed assets	<u>1,782</u>	<u>1,379</u>
Total extraordinary income	1,782	1,379
Extraordinary losses:		
Losses on sales of fixed assets	520	700
Impairment losses on fixed assets	8,294	489
Provision for reserves under the special laws:		
Provision for reserve for price fluctuation	<u>3,613</u>	<u>3,667</u>
Total provision for reserves under the special laws	3,613	3,667
Other extraordinary losses	<u>1,139</u>	<u>3,621</u>
Total extraordinary losses	<u>13,567</u>	<u>8,479</u>
Income/(loss) before income taxes	156,111	208,442
Income taxes-current	37,305	56,972
Income taxes-deferred	<u>4,835</u>	<u>(13,098)</u>
Total income taxes	<u>42,140</u>	<u>43,874</u>
Net income/(loss)	¥ <u>113,970</u>	<u>164,568</u>

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Changes in Net Assets

For the years ended March 31, 2016 and 2017

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		
				Tax-exempted reserve for accelerated depreciation	Retained earnings brought forward	
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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Changes in Net Assets (Continued)

2017

(Yen in millions)

	Shareholders' equity					
	Common stock	Capital surplus	Retained earnings			Total Shareholders' equity
		Additional paid-in capital	Legal earned reserve	Other retained earnings Tax-exempted reserve for accelerated depreciation	Retained earnings brought forward	
Beginning balance	¥ 139,595	93,107	46,487	16,012	290,143	585,347
Changes for the year						
Provision for tax-exempted reserve for accelerated depreciation				103	(103)	-
Reversal of tax-exempted reserve for accelerated depreciation				(275)	275	-
Dividends paid					(73,237)	(73,237)
Net income/(loss)					164,568	164,568
Net changes of items other than shareholders' equity						
Total changes for the year	-	-	-	(172)	91,503	91,330
Ending balance	¥ 139,595	93,107	46,487	15,840	381,647	676,678

	Valuation and translation adjustments		Total net assets
	Net unrealized gains/(losses) on investments in securities	Net deferred gains/(losses) on hedges	
Beginning balance	¥ 902,019	40,113	1,527,481
Changes for the year			
Provision for tax-exempted reserve for accelerated depreciation			-
Reversal of tax-exempted reserve for accelerated depreciation			-
Dividends paid			(73,237)
Net income/(loss)			164,568
Net changes of items other than shareholders' equity	30,975	(4,736)	26,238
Total changes for the year	30,975	(4,736)	117,569
Ending balance	¥ 932,995	35,377	1,645,050

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements

For the years ended March 31, 2016 and 2017

1. Basis of presentation

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

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

2. Accounting policies

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

- (i) Investments in subsidiaries and associates are valued at cost determined by the moving average method.
- (ii) Available-for-sale securities (except for those without practically determinable fair value) are valued at their year-end market prices.
Net unrealized gains and losses are reported as a separate line item of net assets, and cost of sales is calculated by the moving average method.
- (iii) Available-for-sale securities without practically determinable fair value are valued at cost using the moving average method.
- (iv) Money trusts which are specifically managed for the Company for trading purposes are valued at their year-end market prices. Money trusts which are specifically managed for the Company, other than money trusts held for trading purposes and money trusts held to maturity, are valued on the same basis as available-for-sale securities.

(2) Valuation policies and methods of derivative financial instruments

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.

(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).

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

(5) Translation of foreign currency assets and liabilities

Foreign currency monetary assets and liabilities are translated into Japanese yen in accordance with the provisions of the Accounting Standard for Foreign Currency Transactions.

(6) Accounting policies for reserves

(i) Bad debt reserve

Bad debt reserve is established under the internal standards for self-assessment of assets and the policy for write-off and provision. Bad debt reserve for loans to debtors who are legally deemed to be insolvent due to bankruptcy or special liquidation, or whose notes are under suspension at clearing houses, and loans to debtors who are deemed to be substantially insolvent is provided based on the outstanding balance remaining after deducting the resale value of collateral and the amount collectible through guarantees.

Bad debt reserve for loans to debtors who are likely to become insolvent in the future is provided based on the outstanding balance remaining after deducting the resale value of collateral, the amount collectible through guarantees and the amount expected to be repaid by the debtors considering their overall ability to pay.

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

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

(ii) Reserve for pension and retirement benefits

Reserve for pension and retirement benefits is established to provide for future retirement benefits based on the estimated retirement benefit obligations and plan assets at the year-end.

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

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

(b) Actuarial gains and losses

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.

(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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

(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 reorganization by function

Reserve for reorganization by function is established based on the estimated costs to be incurred in the future associated with the reorganization by function at domestic consolidated insurance subsidiaries of MS&AD Insurance Group Holdings, Inc.

(vi) Reserve for price fluctuation

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

(7) Hedge accounting

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

In addition, for certain derivative financial instruments, alternative treatments are permitted under Japanese GAAP. Assets and liabilities denominated in foreign currencies and hedged by foreign exchange forward contracts or currency swaps can be accounted for by the allocation method. Under this method, the foreign exchange forward contracts and currency swaps used as hedging instruments are not measured at fair value, since gains and losses on the derivatives are assumed to be offset with changes in fair value of the corresponding hedged items and hedged items are translated at the foreign exchange rates that are stipulated in the foreign exchange forward contracts or currency swaps (hedging instruments). Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at fair value, but the differentials paid or received under the swap agreements are recognized and included in interest expense or income of the hedged items (the exceptional method).

Gains and losses on equity forward contracts used for hedging risks of variability in the fair value of investments in equity securities are accounted for under the deferred hedge method.

Gains and losses on currency swap contracts and certain foreign exchange forward contracts used for hedging risks of variability in foreign exchange rates on foreign currency 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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

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 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 related to retirement benefits in non-consolidated financial statements differs from that 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.

(9) Additional information

The Company has adopted “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26 issued on March 28, 2016), effective from the year ended March 31, 2017.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets

For the years ended March 31, 2016 and 2017

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

(Yen in millions)	
March 31, 2016	March 31, 2017
109,244	148,870

(Note) The amounts in the above table are included in Stock and Foreign securities under Investments in securities as of March 31, 2016 and in Government bonds, Stock and Foreign securities under Investments in securities as of March 31, 2017.

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, 2016	March 31, 2017
Loans to borrowers in bankruptcy	1	3
Overdue loans	161	132
Loans overdue for 3 months or more	587	365
Restructured loans	516	474
Total	1,265	975

(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, 2016	March 31, 2017
Accumulated depreciation	275,821	276,783
Accelerated depreciation	14,418	14,327

(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, 2016 and 2017 were ¥14,418 million and ¥14,327 million, respectively.

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

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Total amounts receivable	10,726	15,123
Total amounts payable	14,034	27,919

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

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Deferred tax assets:		
Underwriting reserves	123,802	136,051
Reserve for pension and retirement benefits	37,943	38,032
Outstanding claims	21,106	20,932
Reserve for price fluctuation	17,893	18,916
Investments in securities	21,023	15,496
Software	12,375	13,360
Others	19,976	23,813
Total gross deferred tax assets	254,121	266,604
Less valuation allowance	(20,506)	(14,097)
Total net deferred tax assets	233,615	252,506
Deferred tax liabilities:		
Net unrealized gains/(losses) on investments in securities	(349,471)	(361,294)
Others	(23,552)	(27,487)
Total gross deferred tax liabilities	(373,024)	(388,782)
Total deferred tax liabilities net of deferred tax assets	(139,408)	(136,275)

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

6. Guarantees and similar arrangements for subsidiaries and associates

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.

March 31, 2017

(Guarantees)

The Company provides a guarantee of ¥47,072 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 ¥273,976 million as of March 31, 2017.

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

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Stock	1,074,237	1,105,498
Capital	17,927	22,520

8. The amounts of pledged assets are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Cash, deposits and savings	2,253	-
Investments in securities	88,700	74,708

(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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

9. Details of Outstanding claims and Underwriting reserves are as follows:

(1) Details of Outstanding claims are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Gross outstanding claims (except for (b))	704,339	701,422
Reinsurance recoverable on unpaid losses	108,158	110,022
Net (a)	596,180	591,400
Outstanding claims relating to earthquakes and compulsory automobile liability insurance (b)	53,548	52,046
Total (a) + (b)	649,729	643,446

(2) Details of Underwriting reserves are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Gross ordinary underwriting reserves	1,314,293	1,309,110
Reinsurance recoverable on underwriting reserves	69,880	76,806
Net (a)	1,244,412	1,232,303
Gross refund reserves	1,369,269	1,301,567
Reinsurance recoverable on refund reserves	4	4
Net (b)	1,369,265	1,301,562
Other underwriting reserves (c)	731,212	783,374
Total (a) + (b) + (c)	3,344,890	3,317,241

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

	March 31, 2016	March 31, 2017
Net assets per share (in Yen)	1,087.63	1,171.35
Amounts deducted from net assets (Yen in millions)	-	-
Outstanding common stock (in thousands of shares)	1,404,402	1,404,402

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

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Commercial papers	14,999	-

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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

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

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.

March 31, 2017

The Company provides guarantees on transactions conducted by a limited partnership entity. Aggregate net present value of these transactions was ¥192,303 million in a negative liability position as of March 31, 2017. This amount was not included in Customers' liabilities under acceptances and guarantees or Acceptances and guarantees since there was no substantial exposure.

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

(Yen in millions)	
March 31, 2016	March 31, 2017
-	1,200

14. "Subsidiary", "Associate", and "Affiliate" appearing elsewhere in the balance sheets and notes thereto refer to those defined in Article 2 of the Corporate Accounting Regulations.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income

For the years ended March 31, 2016 and 2017

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, 2016	For the year ended March 31, 2017
Income	59,561	54,059
Expenses	58,698	55,270

2.

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

	(Yen in millions)	
	For the year ended March 31, 2016	For the year ended March 31, 2017
Gross premiums written	1,855,718	1,817,664
Less reinsurance premiums ceded	348,561	347,542
Net	1,507,157	1,470,122

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

	(Yen in millions)	
	For the year ended March 31, 2016	For the year ended March 31, 2017
Gross claims paid	1,012,433	1,078,371
Less claim recoveries from reinsurance ceded	211,533	266,894
Net	800,899	811,476

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

	(Yen in millions)	
	For the year ended March 31, 2016	For the year ended March 31, 2017
Commissions and collection expenses paid	295,789	283,597
Less reinsurance commissions received	32,653	31,877
Net	263,136	251,720

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

	(Yen in millions)	
	For the year ended March 31, 2016	For the year ended March 31, 2017
Gross provision for/(reversal of) outstanding claims (except for (b))	31,063	(2,916)
Less reinsurance recoverable on unpaid losses	22,455	1,863
Net (a)	8,607	(4,780)
Provision for/(reversal of) outstanding claims relating to earthquakes and compulsory automobile liability insurance (b)	207	(1,502)
Total (a) + (b)	8,815	(6,283)

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, 2016	For the year ended March 31, 2017
Gross provision for/(reversal of) ordinary underwriting reserves	65,520	(5,182)
Less reinsurance recoverable on underwriting reserves	4,055	6,926
Net (a)	61,465	(12,108)
Provision for/(reversal of) refund reserves	(97,008)	(67,702)
Less reinsurance recoverable on refund reserves	(1)	0
Net (b)	(97,006)	(67,702)
Provision for/(reversal of) other underwriting reserves (c)	65,642	52,162
Total (a) + (b) + (c)	30,101	(27,649)

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

	(Yen in millions)	
	For the year ended March 31, 2016	For the year ended March 31, 2017
Interest on deposits and savings	1,461	628
Interest on call loans	34	-
Interest on receivables under resale agreements	35	0
Interest on monetary claims bought	765	505
Interest and dividends income on investments in securities	102,219	104,255
Interest on loans	6,234	4,980
Rental income on properties	6,135	6,306
Other interest income	103	115
Total	116,990	116,792

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, 2016	For the year ended March 31, 2017
(1,603)	522

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

(Yen in millions)	
For the year ended March 31, 2016	For the year ended March 31, 2017
(12,460)	3,813

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, 2016	For the year ended March 31, 2017
Net income/(loss) per share (in Yen)	81.15	117.18
Net income/(loss) attributable to common stock (Yen in millions)	113,970	164,568
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, 2016, diluted net income/(loss) per share is not disclosed.
2. Since there was no potential dilution for the year ended March 31, 2017, diluted net income/(loss) per share is not disclosed.

5. 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.

For the year ended March 31, 2017

Other extraordinary losses represent costs for reorganization by function such as system development costs in the amount of ¥3,621 million (of which provision for reserve for reorganization by function of ¥3,015 million).

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

	(%)	
	For the year ended March 31, 2016	For the year ended March 31, 2017
Statutory income tax rate	28.8	28.2
Increase/(decrease) from:		
Tax exempted dividends income	(5.9)	(4.6)
Increase/(decrease) in valuation allowance	(1.2)	(3.1)
Aggregated taxable income earned by specified foreign subsidiaries	0.6	0.6
Effects of changes in income tax rate	4.3	0.2
Others	0.4	(0.3)
Effective income tax rate	27.0	21.0

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

7. Related party transactions are as follows:

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.

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, 2017

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	70,607	-	-

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, 2017.

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.

8. "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, 2016 and 2017

(With Independent Auditor's Report Thereon)

Teruhiko Ito
Director, Senior Executive Officer
Mitsui Sumitomo Insurance Company, Ltd.

Masahiro Matsumoto
Director, Senior Executive Officer
Mitsui Sumitomo Insurance Company, Ltd.



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, 2016 and 2017, 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, 2016 and 2017, 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 26, 2017
Tokyo, Japan

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KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

As of March 31, 2016 and 2017

	2016	2017
	(Yen in millions)	
<u>Assets</u>		
Assets		
Cash, deposits and savings	¥ 691,961	752,618
Receivables under resale agreements	29,999	6,999
Monetary claims bought	90,694	69,820
Money trusts	11,664	3,584
Investments in securities	5,462,625	5,364,323
Loans	448,697	412,169
Tangible fixed assets:		
Land	85,703	85,142
Buildings	135,924	130,184
Construction in progress	1,097	471
Other tangible fixed assets	<u>19,398</u>	<u>18,176</u>
Total tangible fixed assets	<u>242,124</u>	<u>233,974</u>
Intangible fixed assets:		
Software	43,141	39,262
Goodwill	173,110	136,182
Other intangible fixed assets	<u>234,454</u>	<u>179,633</u>
Total intangible fixed assets	<u>450,706</u>	<u>355,078</u>
Other assets	818,767	830,469
Deferred tax assets	5,348	7,594
Customers' liabilities under acceptances and guarantees	43,000	43,000
Bad debt reserve	<u>(8,620)</u>	<u>(8,918)</u>
Total assets	¥ <u>8,286,970</u>	<u>8,070,715</u>

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets (Continued)

	2016	2017
	(Yen in millions)	
<u>Liabilities and Net Assets</u>		
Liabilities		
Policy liabilities:		
Outstanding claims	¥ 1,372,046	1,360,491
Underwriting reserves	<u>3,747,432</u>	<u>3,700,240</u>
Total policy liabilities	<u>5,119,479</u>	<u>5,060,732</u>
Bonds issued	299,841	256,191
Other liabilities	745,514	653,060
Liabilities for pension and retirement benefits	169,546	167,546
Reserve for retirement benefits for officers	761	612
Accrued bonuses for employees	25,456	20,033
Reserve for reorganization by function	-	3,015
Reserves under the special laws:		
Reserve for price fluctuation	<u>64,133</u>	<u>67,801</u>
Total reserves under the special laws	<u>64,133</u>	<u>67,801</u>
Deferred tax liabilities	178,176	163,590
Acceptances and guarantees	<u>43,000</u>	<u>43,000</u>
Total liabilities	<u>6,645,909</u>	<u>6,435,584</u>
Net Assets		
Shareholders' equity:		
Common stock	139,595	139,595
Capital surplus	86,722	86,104
Retained earnings	<u>446,006</u>	<u>528,315</u>
Total shareholders' equity	<u>672,324</u>	<u>754,015</u>
Accumulated other comprehensive income/(loss):		
Net unrealized gains/(losses) on investments in securities	904,253	937,531
Net deferred gains/(losses) on hedges	40,113	23,469
Foreign currency translation adjustments	19,053	(83,684)
Accumulated actuarial gains/(losses) on retirement benefits	<u>(20,573)</u>	<u>(21,192)</u>
Total accumulated other comprehensive income/(loss)	<u>942,848</u>	<u>856,123</u>
Non-controlling interests	<u>25,888</u>	<u>24,991</u>
Total net assets	<u>1,641,061</u>	<u>1,635,131</u>
Total liabilities and net assets	¥ <u>8,286,970</u>	<u>8,070,715</u>

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income

For the years ended March 31, 2016 and 2017

	2016	2017
	(Yen in millions)	
<u>Ordinary income and expenses</u>		
Ordinary income:		
Underwriting income:		
Net premiums written	¥ 1,779,922	2,103,028
Deposit premiums from policyholders	84,712	70,040
Investment income on deposit premiums from policyholders	37,567	35,508
Life insurance premiums	9,679	11,922
Reversal of underwriting reserves	-	8,481
Other underwriting income	505	147
Total underwriting income	<u>1,912,386</u>	<u>2,229,127</u>
Investment income:		
Interest and dividends income	120,530	115,038
Investment gains on money trusts	739	517
Investment gains on trading securities	-	50,255
Gains on sales of securities	107,374	77,207
Gains on redemption of securities	610	337
Gains on derivative transactions	19,820	-
Other investment income	3,136	10,271
Transfer of investment income on deposit premiums from policyholders	<u>(37,567)</u>	<u>(35,508)</u>
Total investment income	<u>214,645</u>	<u>218,118</u>
Other ordinary income:		
Gains on equity method investments	2,245	2,112
Other ordinary income	<u>7,341</u>	<u>10,217</u>
Total other ordinary income	<u>9,587</u>	<u>12,329</u>
Total ordinary income	<u>2,136,619</u>	<u>2,459,576</u>
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	926,282	1,121,343
Loss adjustment expenses	95,656	103,783
Commissions and collection expenses	301,470	372,486
Maturity refunds to policyholders	211,446	167,151
Dividends to policyholders	967	466
Life insurance claims	24	92
Provision for outstanding claims	13,588	42,285
Provision for underwriting reserves	56,925	-
Other underwriting expenses	<u>4,318</u>	<u>21,482</u>
Total underwriting expenses	<u>1,610,680</u>	<u>1,829,091</u>

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income (Continued)

	2016	2017
	(Yen in millions)	
Investment expenses:		
Investment losses on money trusts	¥ 536	9
Losses on sales of securities	5,592	7,152
Impairment losses on securities	8,686	947
Losses on redemption of securities	1,061	887
Losses on derivative transactions	-	24,560
Other investment expenses	16,658	5,753
Total investment expenses	<u>32,535</u>	<u>39,310</u>
Operating expenses and general and administrative expenses	<u>293,588</u>	<u>359,059</u>
Other ordinary expenses:		
Interest expense	6,205	7,778
Provision for bad debt reserve	-	1,670
Losses on bad debts	82	109
Other ordinary expenses	2,172	1,192
Total other ordinary expenses	<u>8,460</u>	<u>10,751</u>
Total ordinary expenses	<u>1,945,264</u>	<u>2,238,212</u>
Ordinary profit/(loss)	<u>191,354</u>	<u>221,363</u>
<u>Extraordinary income and losses</u>		
Extraordinary income:		
Gains on sales of fixed assets	1,813	1,404
Other extraordinary income	8,807	-
Total extraordinary income	<u>10,621</u>	<u>1,404</u>
Extraordinary losses:		
Losses on sales of fixed assets	558	928
Impairment losses on fixed assets	8,779	3,071
Provision for reserves under the special laws:		
Provision for reserve for price fluctuation	3,613	3,667
Total provision for reserves under the special laws	<u>3,613</u>	<u>3,667</u>
Other extraordinary losses	<u>1,139</u>	<u>8,940</u>
Total extraordinary losses	<u>14,090</u>	<u>16,609</u>
Income/(loss) before income taxes	<u>187,884</u>	<u>206,158</u>
Income taxes – current	¥ 43,642	69,048
Income taxes - deferred	5,979	(20,888)
Total income taxes	<u>49,621</u>	<u>48,160</u>
Net income/(loss)	¥ <u>138,262</u>	<u>157,998</u>

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income (Continued)

	2016	2017
	(Yen in millions)	
Net income/(loss) attributable to non-controlling interests	2,547	2,542
Net income/(loss) attributable to owners of the parent	135,715	155,455

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2016 and 2017

		2016	2017
		(Yen in millions)	
Net income/(loss)	¥	138,262	157,998
Other comprehensive income/(loss):			
Net unrealized gains/(losses) on investments in securities		(276,477)	30,960
Net deferred gains/(losses) on hedges		7,973	(16,644)
Foreign currency translation adjustments		(66,191)	(103,350)
Actuarial gains/(losses) on retirement benefits		(30,558)	(616)
Share of other comprehensive income/(loss) of equity method investments		<u>(9,877)</u>	<u>1,298</u>
Total other comprehensive income/(loss)		<u>(375,132)</u>	<u>(88,352)</u>
Total comprehensive income/(loss)	¥	<u>(236,869)</u>	<u>69,646</u>
Allocation:			
Comprehensive income/(loss) attributable to owners of the parent	¥	(235,692)	68,730
Comprehensive income/(loss) attributable to non-controlling interests		(1,176)	915

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2016 and 2017

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
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 scope of consolidation				-
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
Changes for the year:							
Dividends paid							(55,999)
Net income/(loss) attributable to owners of the parent							135,715
Changes in scope of consolidation							-
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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Changes in Net Assets (Continued)

2017

(Yen in millions)

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Total shareholders' equity
Beginning balance	¥ 139,595	86,722	446,006	672,324
Changes for the year:				
Dividends paid			(73,237)	(73,237)
Net income/(loss) attributable to owners of the parent			155,455	155,455
Changes in scope of consolidation			91	91
Changes in equity resulted from transactions with non-controlling interests		(617)		(617)
Net changes of items other than shareholders' equity				
Total changes for the year	-	(617)	82,308	81,691
Ending balance	¥ 139,595	86,104	528,315	754,015

	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	¥ 904,253	40,113	19,053	(20,573)	942,848	25,888	1,641,061
Changes for the year:							
Dividends paid							(73,237)
Net income/(loss) attributable to owners of the parent							155,455
Changes in scope of consolidation							91
Changes in equity resulted from transactions with non-controlling interests							(617)
Net changes of items other than shareholders' equity	33,277	(16,644)	(102,738)	(619)	(86,724)	(896)	(87,621)
Total changes for the year	33,277	(16,644)	(102,738)	(619)	(86,724)	(896)	(5,929)
Ending balance	¥ 937,531	23,469	(83,684)	(21,192)	856,123	24,991	1,635,131

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended March 31, 2016 and 2017

		2016	2017
		(Yen in millions)	
I. Cash flows from operating activities:			
Income/(loss) before income taxes			
	¥	187,884	206,158
Adjustments for:			
Depreciation		23,849	39,263
Impairment losses on fixed assets		8,779	3,071
Amortization of goodwill		4,209	9,293
Increase/(decrease) in outstanding claims		14,684	52,189
Increase/(decrease) in underwriting reserves		56,946	(7,750)
Increase/(decrease) in bad debt reserve		(3,772)	1,332
Increase/(decrease) in reserve for retirement benefits for officers		(150)	(149)
Increase/(decrease) in accrued bonuses for employees		462	(3,329)
Increase/(decrease) in reserve for reorganization by function		-	3,015
Increase/(decrease) in liabilities for pension and retirement benefits		(1,983)	(786)
Increase/(decrease) in reserve for price fluctuation		3,613	3,667
Interest and dividends income		(120,530)	(115,038)
Losses/(gains) on investments in securities		(92,644)	(118,813)
Losses/(gains) on derivative transactions		(19,820)	24,560
Interest expense		6,205	7,778
Foreign exchange losses/(gains)		9,144	(3,535)
Losses/(gains) on disposal of tangible fixed assets		(1,254)	(477)
Losses/(gains) on equity method investments		(2,245)	(2,112)
Decrease/(increase) in other assets		4,572	(56,478)
Increase/(decrease) in other liabilities		(34,388)	20,710
Other, net		(4,441)	(20,543)
Subtotal		39,119	42,029
Interest and dividends received		113,799	118,606
Interest paid		(6,087)	(9,802)
Income taxes refunded/(paid)		(18,684)	(58,775)
Net cash provided by/(used in) operating activities (a)		128,146	92,057

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

	2016	2017
	(Yen in millions)	
II. Cash flows from investing activities:		
Net decrease/(increase) in deposits and savings	¥ 748	1,959
Proceeds from sales and redemption of monetary claims bought	7,916	17,097
Purchase of money trusts	(16)	(26)
Proceeds from sales of money trusts	41	9,970
Purchase of securities	(863,672)	(1,607,803)
Proceeds from sales and redemption of securities	1,134,187	1,782,717
Investment in loans	(83,746)	(75,697)
Collection of loans	133,598	112,204
Other, net	<u>29,828</u>	<u>8,141</u>
Subtotal (b)	<u>358,885</u>	<u>248,564</u>
(a + b)	<u>487,031</u>	<u>340,621</u>
Acquisition of tangible fixed assets	(8,409)	(8,778)
Proceeds from sales of tangible fixed assets	3,401	2,832
Acquisition of intangible fixed assets	(9,927)	(16,388)
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	<u>(266)</u>	<u>(4,120)</u>
Net cash provided by/(used in) investing activities	<u>(238,060)</u>	<u>222,108</u>
III. Cash flows from financing activities:		
Proceeds from borrowings	436,767	32,651
Repayments of borrowings	(240,000)	(141,389)
Issuance of bonds	148,967	-
Redemption of bonds	(70,000)	(33,890)
Dividends paid to shareholders	-	(73,237)
Dividends paid to non-controlling interests	(1,382)	(1,202)
Purchase of shares of subsidiaries not resulting in changes in scope of consolidation	-	(617)
Other, net	<u>(844)</u>	<u>(834)</u>
Net cash provided by/(used in) financing activities	<u>273,507</u>	<u>(218,521)</u>
IV. Effect of exchange rate changes on cash and cash equivalents	<u>(14,199)</u>	<u>(2,455)</u>
V. Net increase/(decrease) in cash and cash equivalents	<u>149,393</u>	<u>93,189</u>
VI. Cash and cash equivalents at beginning of year	<u>466,186</u>	<u>614,880</u>
VII. Decrease in cash and cash equivalents due to exclusion from scope of consolidation	(699)	(903)
VIII. Cash and cash equivalents at end of year	¥ <u>614,880</u>	<u>707,167</u>

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies

For the years ended March 31, 2016 and 2017

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

76 companies

Major consolidated subsidiaries are as follows:

MSIG Holdings (Americas), Inc.
MS Amlin plc
MSIG Insurance (Malaysia) Bhd.

Changes in scope of consolidation

Leadenhall Capital Partners US LP and 5 other companies have been included in the scope of consolidation since the year ended March 31, 2017 as they were newly established.

MSC Corporation has been excluded from the scope of consolidation during the year ended March 31, 2017 as its effect on consolidated net income and retained earnings is no longer considered material. MS Frontier Reinsurance Limited has been excluded from the scope of consolidation during the year ended March 31, 2017 as it was merged with MS Amlin AG. In addition, AUT (No.1) Limited and 17 other companies have been excluded from the scope of consolidation during the year ended March 31, 2017 due to sales of their shares.

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

12 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

Eagle Underwriting Group Inc. and 3 other companies have become equity method affiliates during the year ended March 31, 2017 due to the Company's acquisition of shares.

Manchester Underwriting Management Limited and other company have been excluded from the scope of application of the equity method during the year ended March 31, 2017 due to sales of their shares.

(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 74 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 and cost of sales is calculated using the first-in first-out method.

(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.

(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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

and the amount collectible through guarantees.

Bad debt reserve for loans to debtors who are likely to become insolvent in the future is provided based on the outstanding balance remaining after deducting the resale value of collateral, the amount collectible through guarantees and the amount expected to be repaid by the debtors considering their overall ability to pay.

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

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

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

For 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 reorganization by function

Reserve for reorganization by function is established based on the estimated costs to be incurred in the future associated with the reorganization by function at domestic consolidated insurance subsidiaries of MS&AD Insurance Group Holdings, Inc.

(v) 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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

attributed to the periods up to the current year using the plan's benefit formula.

(ii) Accounting for actuarial gains and losses

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.

(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 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.

(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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

(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 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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

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. Additional information

The Company has adopted "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 issued on March 28, 2016), effective from the year ended March 31, 2017.

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
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Notes to Consolidated Balance Sheets

As of March 31, 2016 and 2017

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

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Accumulated depreciation	295,893	296,051
Accelerated depreciation	14,418	14,327

(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, 2016 and 2017 were ¥14,418 million and ¥14,327 million, respectively.

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

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Investments in securities (Domestic stocks)	13,713	10,966
Investments in securities (Foreign securities)	141,057	142,454
Investments in securities (Other securities)	8,805	11,399

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, 2016	March 31, 2017
Loans to borrowers in bankruptcy	1	3
Overdue loans	161	132
Loans overdue for three months or more	587	365
Restructured loans	516	474
Total	1,265	975

(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, 2016	March 31, 2017
Investments in securities	234,550	228,335
Cash, deposits and savings	21,934	23,755

(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, 2016	March 31, 2017
109,244	148,870

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, 2016	March 31, 2017
Commercial papers	14,999	-
Securities	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, 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
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

March 31, 2017

The Company provides guarantees on transactions conducted by a limited partnership entity. Aggregate net present value of these transactions was ¥192,303 million in a negative liability position as of March 31, 2017. 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 balances of commitment lines to third parties are as follows:

(Yen in millions)	
March 31, 2016	March 31, 2017
-	1,200

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 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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

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. Furthermore, under Credit Support Annex (CSA) the Group obtains collateral from 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.

(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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

(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, 2016 and 2017 together with their differences. The following tables exclude financial instruments in which the fair values are not practically determinable (see Note 2).

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Notes to Consolidated Balance Sheets (Continued)

March 31, 2016

(Yen in millions)

	Carrying amount	Fair value	Difference
(i) Cash, deposits and savings	691,961	691,954	(7)
(ii) Receivables under resale agreements	29,999	29,999	-
(iii) Monetary claims bought	90,694	90,694	-
(iv) Money trusts	11,664	11,664	-
(v) Investments in securities:			
Trading securities	698,137	698,137	-
Available-for-sale securities	4,531,563	4,531,563	-
(vi) 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.

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

March 31, 2017

(Yen in millions)

	Carrying amount	Fair value	Difference
(i) Cash, deposits and savings	752,618	752,657	39
(ii) Receivables under resale agreements	6,999	6,999	-
(iii) Monetary claims bought	69,820	69,820	-
(iv) Money trusts	3,584	3,584	-
(v) Investments in securities:			
Trading securities	638,668	638,668	-
Available-for-sale securities	4,481,366	4,481,366	-
(vi) Loans	412,169		
Bad debt reserve (*1)	(83)		
	412,085	418,541	6,456
Total assets	6,365,143	6,371,639	6,496
Bonds issued	256,191	274,502	18,311
Total liabilities	256,191	274,502	18,311
Derivative transactions (*2):			
Hedge accounting not applied	19,246	19,246	-
Hedge accounting applied	23,012	23,012	-
Total derivative transactions	42,258	42,258	-

(*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) 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.

(iii) Monetary claims bought

With regard to commercial papers (CP), the price quoted by exchanges or counterparty financial institutions is deemed as the fair value. With regard to certain 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

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

counterparty financial institutions is deemed as the fair value.

(iv) Money trusts

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

(v) 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.

(vi) 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 or prices quoted by counterparty financial institutions.

Derivative transactions

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

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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

(Yen in millions)

	March 31, 2016	March 31, 2017
Unlisted stocks and other assets invested in unconsolidated subsidiaries and associates	163,577	164,820
Other unlisted stocks	26,919	26,785
Unlisted investment trusts	1,693	12,651
Partnership investments comprised of unlisted stocks	40,733	40,031
Total	232,924	244,288

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.

(Changes in presentation)

In the previous years, unlisted investment trusts were included in Partnership investments comprised of unlisted stocks. Starting from the year ended March 31, 2017, this item has been presented as a separate line item, because its effect on balance sheet has become material.

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, 2016	March 31, 2017
Carrying amount	37,547	36,722
Fair value	105,082	107,387

(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.

11. Business combination

(Business combination through acquisition)

Finalization of provisional accounting treatment

The Company provisionally accounted for the business combination through acquisition of MS Amlin plc during the year ended March 31, 2016. Purchase price allocation has been completed during the year ended March 31, 2017, and there is no adjustment to the amount of goodwill.

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

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

	March 31, 2016	March 31, 2017
Net assets per share (in Yen)	1,150.07	1,146.49
Non-controlling interests deducted from net assets (Yen in millions)	25,888	24,991
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, 2016 and 2017

1. Major components of business expenses are as follows:

	(Yen in millions)	
	For the year ended March 31, 2016	For the year ended March 31, 2017
Commission expenses	321,272	359,744
Salaries	148,395	173,396

(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, 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 an office building in Tokyo	8,184	Land Buildings	7,221 963
Other	Other intangible fixed assets	Software related to the insurance business operations held by overseas consolidated subsidiaries	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.

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

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 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.

For the year ended March 31, 2017

(Yen in millions)					
Use	Category	Description	Impairment losses on fixed assets	Breakdown	
Idle real estate and real estate for sale	Land and buildings	8 properties, including a company residence in Chiba	489	Land Buildings Other	161 326 0
Other	Other intangible fixed assets	Software related to the insurance business operations held by overseas consolidated subsidiaries	2,582	—	—

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 land and buildings in the above table were to be determined to be closed, the aggregate difference between the carrying amounts of the assets 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.

For the other intangible fixed assets, the portion of carrying amounts of the software being developed by overseas consolidated subsidiaries, which there is no definite plan to use with

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

at present, is recognized as impairment losses.

3. Details of Other extraordinary income are as follows:

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.

For the year ended March 31, 2017

Other extraordinary losses represent costs for reorganization recognized at overseas consolidated subsidiaries in the amount of ¥5,319 million and costs for reorganization by function such as system development costs in the amount of ¥3,621 million (of which, provision for reserve for reorganization by function of ¥3,015 million).

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

	For the year ended March 31, 2016	For the year ended March 31, 2017
Net income/(loss) attributable to owners of the parent per share (in Yen)	96.63	110.69

(Notes)

1. Since there was no potential dilution for the years ended March 31, 2016 and 2017, diluted net income/(loss) per share is not disclosed.

2. The basis of calculation is as follows:

	For the year ended March 31, 2016	For the year ended March 31, 2017
Net income/(loss) attributable to owners of the parent (Yen in millions)	135,715	155,455
Average outstanding common stock during the year (in thousands of shares)	1,404,402	1,404,402

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

For the years ended March 31, 2016 and 2017

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

	2016	2017
	(Yen in millions)	
Net unrealized gains/(losses) on investments in securities:		
Gains/(losses) arising during the period	(297,924)	114,985
Reclassification adjustments	<u>(102,260)</u>	<u>(72,203)</u>
Before income tax effect adjustments	(400,184)	42,782
Income tax effects	<u>123,707</u>	<u>(11,821)</u>
Net unrealized gains/(losses) on investments in securities	<u>(276,477)</u>	<u>30,960</u>
Net deferred gains/(losses) on hedges:		
Gains/(losses) arising during the period	16,202	(13,294)
Reclassification adjustments	<u>(5,659)</u>	<u>(5,208)</u>
Before income tax effect adjustments	10,542	(18,503)
Income tax effects	<u>(2,569)</u>	<u>1,858</u>
Net deferred gains/(losses) on hedges	<u>7,973</u>	<u>(16,644)</u>
Foreign currency translation adjustments:		
Gains/(losses) arising during the period	(55,652)	(103,350)
Reclassification adjustments	<u>(10,539)</u>	<u>-</u>
Foreign currency translation adjustments	<u>(66,191)</u>	<u>(103,350)</u>
Actuarial gains/(losses) on retirement benefits:		
Gains/(losses) arising during the period	(42,487)	(5,050)
Reclassification adjustments	<u>(63)</u>	<u>5,343</u>
Before income tax effect adjustments	(42,550)	292
Income tax effects	<u>11,991</u>	<u>(909)</u>
Actuarial gains/(losses) on retirement benefits	<u>(30,558)</u>	<u>(616)</u>
Share of other comprehensive income/(loss) of equity method investments:		
Gains/(losses) arising during the period	(8,307)	3,337
Reclassification adjustments	<u>(1,570)</u>	<u>(2,039)</u>
Share of other comprehensive income/(loss) of equity method investments	<u>(9,877)</u>	<u>1,298</u>
Total other comprehensive income/(loss)	<u>(375,132)</u>	<u>(88,352)</u>

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2016 and 2017

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

(2) 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
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Notes to Consolidated Statements of Changes in Net Assets (Continued)

For the year ended March 31, 2017

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	Aggregate amount of dividends (Yen in millions)	Dividends per share (in Yen)	Date of record	Effective date
Board meeting held on May 18, 2016	Common stock	45,814	32.62	March 31, 2016	May 23, 2016
Board meeting held on November 16, 2016	Common stock	27,423	19.52	-	November 25, 2016

(3) Dividends declared effective after March 31, 2017 for which the date of record is in the year ended March 31, 2017

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 17, 2017	Common stock	36,680	Retained earnings	26.11	March 31, 2017	May 22, 2017

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

For the years ended March 31, 2016 and 2017

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

	(Yen in millions)	
	2016	2017
Cash, deposits and savings	691,961	752,618
Receivables under resale agreements	29,999	6,999
Monetary claims bought	90,694	69,820
Investments in securities	5,462,625	5,364,323
Time deposits with original maturities of more than three months	(141,628)	(126,284)
Monetary claims bought other than cash equivalents	(83,095)	(61,279)
Investments in securities other than cash equivalents	(5,435,677)	(5,299,031)
Cash and cash equivalents	614,880	707,167

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
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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
	<hr/> 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	<hr/> 627,677
Less: Cash and cash equivalents held at MS Amlin	53,488
Net consideration paid for acquisition of MS Amlin	<hr/> 574,189

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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.