

MITSUI SUMITOMO INSURANCE COMPANY LIMITED - NEW ZEALAND BRANCH

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

INDEX

	Page No.
STATEMENT OF COMPREHENSIVE INCOME	3
STATEMENT OF MOVEMENT IN HEAD OFFICE ACCOUNT	4
STATEMENT OF FINANCIAL POSITION	5
STATEMENT OF CASH FLOWS	6
STATEMENT OF ACCOUNTING POLICIES	7 – 12
NOTES TO FINANCIAL STATEMENTS	13 - 33
AUDITOR'S REPORT	34 - 35

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 2018.

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 2018

	Notes	2018 \$	2017 \$
Gross earned premium	1	7,657,350	7,332,724
Reinsurance expense	2	(3,141,987)	(3,671,201)
Net Premium Revenue		4,515,363	3,661,523
Claims Expense	4	239,528	(528,841)
Reinsurance and Other Recoveries	1	87,417	279,139
Net Claims Expense		326,945	(249,702)
Commissions		(380,061)	(392,333)
Reinsurance commission income	1	391,349	364,451
Net Acquisition Costs		11,288	(27,882)
Underwriting Result		4,853,596	3,383,939
Operating Expenses	3	(1,137,064)	(1,150,256)
Investment income	1	1,343,270	1,325,520
Sundry income	1	164	157
Net Profit Before Tax		5,059,966	3,559,360
Taxation expense	5	-	-
Net Profit for the Year		5,059,966	3,559,360
Other comprehensive income for the year		-	-
Total Comprehensive Income for the Year		5,059,966	3,559,360

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 2018

	2018 \$	2017 \$
Opening Head Office Balance	46,237,112	42,677,752
Net Profit for the Year	5,059,966	3,559,360
Total Comprehensive Income for the Year	5,059,966	3,559,360
Closing Head Office Balance	51,297,078	46,237,112

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

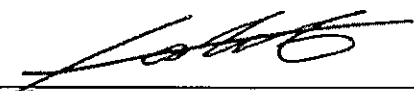
MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

STATEMENT OF FINANCIAL POSITION
For the Year ended 31 March 2018

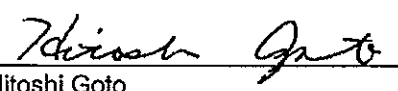
	Notes	31 March 2018 \$	31 March 2017 \$
Assets			
Cash and Cash Equivalents		61,714,210	58,798,049
Premium Receivables		1,412,208	1,372,160
Taxation Receivable		4,285	4,285
Other Current Assets	6	1,331,124	1,273,849
Reinsurance Receivable		8,837,707	7,184,574
Reinsurance Recoveries	7	34,084,168	35,757,439
Property, Plant and Equipment	8	-	5,869
Total Assets		107,383,702	104,396,225
Liabilities			
Accounts Payable	9	362,326	346,650
Reinsurance Payable		910,907	835,271
Other Current Liabilities	10	330,301	311,339
Unearned Premium Reserve	11	2,645,796	2,457,308
Outstanding Claims Liability	12	48,981,119	51,472,828
Due to Related Parties	16	2,856,175	2,735,717
Total Liabilities		56,086,624	58,159,113
Net Assets		51,297,078	46,237,112
Head Office Account		51,297,078	46,237,112

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

For and on behalf of the Board of Directors


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

9th July 2018
Date


Hitoshi Goto
Director, Managing Executive Officer
Mitsui Sumitomo Insurance Company, Ltd.

9th July 2018
Date

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

STATEMENT OF CASH FLOWS
For the year ended 31 March 2018

	Notes	2018 \$	2017 \$
Cash flows from operating activities			
Premiums received		7,805,789	7,163,567
Reinsurance and other recoveries received		107,555	288,767
Interest received		1,339,887	1,327,005
Claims paid		(2,252,181)	(5,566,721)
Reinsurance premiums paid		(3,122,601)	(3,244,276)
Net acquisition costs		(13,827)	(40,445)
Operating expenses paid		(948,461)	(884,187)
Net cash from/ (used in) operating activities	18	2,916,161	(956,290)
Cash flows from investing activities			
Receipt of investments on maturity		-	-
Payments for purchases of plant & equipment		-	-
Net cash from/ (used in) investing activities		-	-
Net increase (decrease) in cash and cash equivalents		2,916,161	(956,290)
Cash and cash equivalents at the beginning of the financial year		58,798,049	59,754,339
Cash and cash equivalents at the end of the financial year		61,714,210	58,798,049

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 2018

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 QBE Centre, 125 Queen Street, Auckland, New Zealand. These Branch financial statements should be read in conjunction with the full financial statements of the Company.

The Branch operates as a fire and general insurer and reinsurer within New Zealand.

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 2018. The financial statements were authorised for issue by the Directors on the 9th July 2018 of 2018.

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 2018

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 2018

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 2018 (2017: 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 2018

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.

The Branch 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 2018

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
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

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 on the recognition and measurement, as all the insurance contracts are either annual or less than a year and the Branch intends to adopt the premium allocation approach (PAA), however the Branch is fully aware the financial statement disclosures might change.

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

1. Total Revenue

	2018 \$	2017 \$
Gross written premium	7,845,837	7,005,367
Change in unearned premium reserve	(188,487)	327,357
Gross Earned Premium	7,657,350	7,332,724
Reinsurance commission income	391,349	364,451
Reinsurance and other recoveries	87,417	279,139
Reinsurance Income	478,766	643,590
Investment income	1,343,270	1,325,520
Other income	164	157
Sundry income	164	157
Total Revenue	9,479,550	9,301,991

(A) Premium Revenue

	2018 \$	2017 \$
Direct	7,607,053	7,289,308
Reinsurance	50,297	43,416
Total Gross Earned Premium	7,657,350	7,332,724

(B) Investment Income

	2018 \$	2017 \$
Cash and cash equivalents interest income	1,343,270	1,325,520
Total investment income	1,343,270	1,325,520

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

2. Reinsurance Expenses

	2018 \$	2017 \$
Outward reinsurance premium expense	(3,216,547)	(3,391,737)
Change in unearned reinsurance premium provision	74,560	(279,464)
	(3,141,987)	(3,671,201)

3. Operating Expenses

	2018 \$	2017 \$
Management fee	632,750	630,850
Fees paid to auditors:		
Audit – Statutory financial statements	85,100	84,100
Tax	16,148	7,650
Depreciation	5,869	9,116
Employee benefits	169,571	194,757
Other Expenses	227,626	223,783
Total operating expenses	1,137,064	1,150,256

4. Claims Expense

	2018 \$	2017 \$
Direct	(239,528)	528,841
	(239,528)	528,841

The net claims expense is negative this year mainly driven by a reduction in the risk margin associated with earthquake claims. The risk has reduced because of exchange rate movements over the year.

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.

2018	Current Year \$	Prior Years \$	Total \$
Gross claims incurred - undiscounted	1,088,860	(1,329,404)	(240,544)
Discount movement	(8,051)	9,067	1,016
Gross claims incurred - discounted	1,080,809	(1,320,337)	(239,528)
Reinsurance and other recoveries - undiscounted	(145,975)	60,079	(85,896)
Discount movement	1,702	(3,223)	(1,521)
Reinsurance and other recoveries - discounted	(144,273)	56,854	(87,417)
Net claims Incurred	936,536	(1,263,481)	(326,945)

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

4. Claims Expense (Continued)

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

Prior years gross claims incurred includes reduction in earthquake risk margin of \$900k as a result of favourable exchange rate movements and reduction of case estimates.

Included in reinsurance recoveries is a gain of \$169,462 (2017: loss of \$53,810) 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

	2018 \$	2017 \$
Reconciliation of effective tax rate		
Profit before tax	5,059,966	3,559,360
Income tax at Branch tax rate 28% (2017: 28%)	1,416,790	996,621
Recognition of previously unrecognised tax losses	(1,416,790)	(996,621)
Total Income Tax Expense	-	-

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

6. Other Current Assets

	2018 \$	2017 \$
Accrued income	54,041	50,658
Deferred acquisition costs	241,655	215,891
Deferred reinsurance premium	941,149	866,589
Prepaid expenses	94,279	84,018
GST receivable	-	56,693
	1,331,124	1,273,849

(A) Deferred acquisition costs

	2018 \$	2017 \$
Deferred acquisition costs at 1 April	215,891	261,634
Acquisition costs deferred	405,825	346,590
Amortisation charged to the profit or loss	(380,061)	(392,333)
Deferred acquisition costs at 31 March	241,655	215,891

(B) Deferred Reinsurance premium

	2018 \$	2017 \$
Deferred reinsurance premium at 1 April	866,589	1,146,053
Reinsurance premium deferred	3,216,546	3,391,737
Reinsurance premium charged to the profit or loss	(3,141,986)	(3,671,201)
Deferred reinsurance premium at 31 March	941,149	866,589

7. Reinsurance Recoveries

	2018 \$	2017 \$
Reinsurance recoveries arising from claims	34,084,168	35,757,439
Reinsurance and other recoveries receivable at 1 April	35,757,439	39,533,421
Recoveries on claims reassessed	(56,854)	6,977
Recoveries received	(1,760,690)	(407,897)
Transfer of recoveries to receivables	-	(3,647,224)
Recoveries on new claims	144,273	272,162
Reinsurance and other recoveries receivable at 31 March	34,084,168	35,757,439

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

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 2016	41,189	42,344	83,533
Additions	-	-	-
Disposals	-	-	-
Balance at 31 March 2017	41,189	42,344	83,533
Additions	-	-	-
Balance at 31 March 2018	41,189	42,344	83,533
Accumulated depreciation			
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
Charge for the year	5,869	-	5,869
Balance at 31 March 2018	41,189	42,344	83,533
Carrying amounts			
At 31 March 2017	5,869	-	5,869
At 31 March 2018	-	-	-

9. Accounts Payable

	2018 \$	2017 \$
Trade creditors and accruals	270,398	230,657
Government levies	90,658	115,993
Gst payable	1,270	-
	362,326	346,650

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

10. Other Current Liabilities

	2018 \$	2017 \$
Unearned reinsurance commission	154,470	153,819
Non-resident withholding tax	175,831	157,520
	330,301	311,339

(A) Unearned Reinsurance Commission

	2018 \$	2017 \$
Unearned reinsurance commission at 1 April	153,819	212,125
Reinsurance commission deferred	392,000	306,145
Reinsurance commission recognised in profit or loss	(391,349)	(364,451)
Unearned reinsurance commission at 31 March	154,470	153,819

11. Unearned Premium Reserve

	2018 \$	2017 \$
Unearned premium liability	2,645,796	2,457,308
Unearned premium liability at 1 April	2,457,308	2,784,665
Deferral of premium on contracts written at year end	2,645,796	2,457,308
Prior year premium earned	(2,457,308)	(2,784,665)
Unearned premium liability at 31 March	2,645,796	2,457,308

Liability adequacy test

A liability adequacy test ("LAT") was performed as at 31 March 2018 and 31 March 2017. Both tests identified a surplus the calculations for which are disclosed below:

	2018 \$	2017 \$
Gross unearned premium	2,645,796	2,457,308
Deferred reinsurance premium	(941,149)	(866,589)
Deferred acquisition expenses – net of reinsurance	(87,185)	(62,072)
Premium available to meet expected claims cost	1,617,462	1,528,647
Net premium liability (including 75% probability of adequacy risk margin)	1,511,223	1,487,839
LAT result	Pass	Pass

The risk margin included in the Branch's expected future cash flows for future claims is 33% (2017: 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
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

12. Outstanding Claims Liability

(A) Gross outstanding claims liability

	2018	2017
	\$	\$
Central estimate of outstanding claims liabilities	46,261,592	47,856,194
Discount to present value	(12,477)	(13,674)
Risk margin	2,627,608	3,531,689
Claims handling expense	104,396	98,619
	48,981,119	51,472,828

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 2018. 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.

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

Ultimate claims cost estimate	2012 & Prior	2013	2014	2015	2016	2017	2018	Total
	\$	\$	\$	\$	\$	\$	\$	\$
At end of accident year	148,192,422	2,613,262	1,427,174	3,219,289	3,554,776	920,486	902,590	902,590
One year later	158,266,866	1,862,865	1,150,409	3,011,577	3,393,984	740,329		740,329
Two years later	176,234,261	1,541,712	1,139,371	3,033,971	3,404,601			3,404,601
Three years later	167,836,009	1,609,955	1,138,857	3,031,520				3,031,520
Four years later	176,270,823	1,609,955	1,135,221					1,135,221
Five years later	176,427,590	1,609,955						1,609,955
Six years later	176,365,603							176,365,603
Total current estimate of ultimate claims costs	176,365,603	1,609,955	1,135,221	3,031,520	3,404,601	740,329	902,590	187,189,819
Cumulative payments	131,270,679	1,609,955	1,135,221	3,031,519	3,020,800	464,876	395,177	140,928,227
Undiscounted central estimate	45,094,924	-	-	1	383,801	275,453	507,413	46,261,592
Discount	161	-	-	-	3,381	3,013	5,922	12,477
Discounted central estimate	45,094,763	-	-	1	380,420	272,440	501,491	46,249,115
Claims handling expense	6,276	-	-	-	32,336	23,157	42,627	104,395
Risk margin	2,275,306	-	-	1	116,102	83,147	153,052	2,627,608
Gross outstanding claims liability	47,376,345	-	-	2	528,858	378,744	697,170	48,981,119
Reinsurance recoveries on outstanding claims liability	(33,894,686)	-	-	-	(30,211)	(44,896)	(114,373)	(34,084,168)
Net outstanding claims liability	13,481,657	-	-	2	498,647	333,848	582,797	14,896,951

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

12. Outstanding Claims Liability (Continued)

(C) Reconciliation of movement in outstanding claims

	2018 \$	2017 \$
Outstanding claims liability at 1 April	51,472,828	56,510,710
Claims reassessed	(1,320,337)	(564,739)
Claims paid	(2,252,181)	(5,566,723)
New claims	1,080,809	1,093,580
Outstanding claims liability at 31 March	48,981,119	51,472,828

13. Deferred Tax

At 31 March 2018 the Branch has unused tax losses of \$74,629,263 (2017: \$79,689,229) for which no deferred tax asset is recognised.

14. Contingent Liabilities

The Branch has no contingent liabilities at balance date (2017: Nil).

15. Commitments

The Branch has no commitments for expenditure at balance date (2017: 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.

	2018 \$	2017 \$
Transactions with Head Office:		
Reinsurance premiums	175,778	545,815
Reinsurance recoveries	(14,081)	(31,066)
Reinsurance commission earned	(33,052)	(106,542)
Other expense paid/ recharged	(8,187)	(25,435)
	120,458	382,772

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

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.

	2018 \$	2017 \$
Outstanding balance with Head Office:		
Due to related parties	2,856,175	2,735,717

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

	2018 \$	2017 \$
Transactions with Aioi:		
Management Fees Paid	32,750	30,850

Outstanding balance with Aioi:

Other current assets	94,277	84,018
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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:

	2018 \$	2017 \$
Short-term employee benefits	162,143	187,105

17. Credit Rating

Mitsui Sumitomo Insurance Company Limited has received an A+ (2017: 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 2018

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

	2018 \$	2017 \$
Net profit for the period	5,059,966	3,559,360
Depreciation	5,869	9,116
(Increase)/Decrease in premium receivables	(40,048)	158,200
(Decrease) in taxation receivable	-	(4,285)
Decrease in reinsurance receivables	(1,653,133)	(3,766,354)
Decrease in reinsurance recoveries	1,673,271	3,775,982
(Increase)/Decrease in other current assets	(57,275)	323,282
Increase/(Decrease) in accounts payable	15,676	(118,281)
Increase in reinsurance payable	75,636	69,401
Decrease in other current liabilities	18,962	19,754
(Decrease) in outstanding claims liability	(2,491,709)	(5,037,881)
Increase/(Decrease) in unearned premium reserve	188,488	(327,356)
Decrease in amounts due to related parties	120,458	382,772
Net cash flow from operating activities	2,916,161	(956,290)

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 2017 Annual Report and the 31 March 2018 supplement to the Earnings Report available from www.ms-ad-hd.com, as calculated under the Japanese regulations. The 2018 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

	2018 NZD in millions (Unaudited)	2017 NZD in millions (Unaudited)
Actual Solvency Capital [A]	42,797	36,249
Minimum Solvency Capital [B]	12,207	11,019
Solvency Margin [A-B]	30,590	25,229
Solvency Ratio [A/B*2]*100	701.2%	657.9%

Solvency ratio under the Reserve Bank of New Zealand method is 351% (2017:328%).

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

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 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 \$46,637,061 and \$15,077,150 respectively (2017: \$43,721,627 and \$15,076,422 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 \$9,752,483 (2017: \$9,734,167).

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		
2018	\$	\$		\$	\$	\$
Cash and cash equivalents	61,714,210	-	-	-	-	61,714,210
Premium receivables	-	-	-	1,412,208	-	1,412,208
Other current assets – accrued income	54,041	-	-	-	-	54,041
Reinsurance receivable	2,271,291	6,522,228	-	44,188	-	8,837,707
Reinsurance recoveries	8,755,494	25,158,333	-	170,341	-	34,084,168
Total	72,795,036	31,680,561	-	1,626,737	-	106,102,334

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

20. Financial Risk Management (Continued)

	Credit Rating				
	AA	A	BBB	Not Rated	Total
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

As at 31 March 2018 there are no assets that are past due or impaired (2017: 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 2018

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
2018	\$	\$	\$	\$	\$
Financial Liabilities					
Reinsurance Payable	910,907	-	-	-	910,907
Due to Related Parties	-	-	-	2,856,175	2,856,175
Trade Creditors and accruals	270,398	-	-	-	270,398
Total	1,181,305	-	-	2,856,175	4,037,480

	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

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

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 2018, as cumulative claims payments have now exceeded the reinsurance recovery threshold \$87,562 (2017: \$69,695).

(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% Profit/Equity	+1% Profit/Equity
2018	\$	\$	\$
Financial Assets			
Cash and Cash Equivalents	61,714,210	(617,142)	617,142

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

20. Financial risk management (Continued)

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

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
2018	\$	\$	\$
Financial Assets			
Cash and Cash Equivalents	61,714,210	61,714,210	-
Other Current Assets – Accrued Income	54,041	54,041	-
Total	61,768,251	61,768,251	-

	Total	Fair Value through Profit and Loss	Financial Liabilities at Amortised Cost
	\$	\$	\$
Financial Liabilities			
Accounts Payable - Trade	270,398	-	270,398
Creditors and Accruals			
Reinsurance Payable	910,907	-	910,907
Due to Related Parties	2,856,175	-	2,856,175
Total	4,037,480	-	4,037,480

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

20. Financial risk management (Continued)

	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 2018

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.

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.

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

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 (2017: 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 BAU outstanding claims due to increases in claims costs as a result of inflation is limited.

In respect of Non-Canterbury earthquake claims, the short settlement period means the effect of discounting expected future payments is limited. These estimates have been discounted to allow for the time value of money at a rate of 2.1% per annum (2017:2%). Canterbury earthquake claims have not been discounted for the time value of money due to the uncertainties in settlement.

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

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 21.6% (2017: 29%). 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 2018 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% (2017: 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	2018	2017
Discount Rate %	+1%	(4,620)	(4,748)
	-1%	4,705	4,748
IBNR Tail Strengthening	+1% p.a. for 4 Quarters	63,686	54,106
Risk Margin %	+1%	122,847	131,789
	-1%	(122,847)	(131,789)

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

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 2018.

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 2018 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 2018 or the Branch's financial position as at 31 March 2018.

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 33:

- i. present fairly in all material respects the branch's financial position as at 31 March 2018 and its financial performance and cash flows for the year ended on that date; and
- ii. 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 2018;
- the statements of comprehensive income, movement 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 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 independent auditor's 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 independent auditor's 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);
- 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:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is **Kay Baldock**

For and on behalf of



KPMG
Auckland

9 July 2018

10 July 2018

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 2018

Mitsui Sumitomo Insurance Company Limited

Finit Consulting Pty Limited (Finit) has been asked by Mitsui Sumitomo Insurance Company Limited, New Zealand Branch (Mitsui NZ) to carry out a review of, and report on, actuarial information contained in the financial statements of Mitsui Sumitomo Insurance Company Limited (MSI) as at 31 March 2018, 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 Finit and the Appointed Actuary to Mitsui NZ. Finit 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



John Smeed
Appointed Actuary
**Fellow of the New Zealand
Society of Actuaries**



Matthew Clere

**Associate of the New Zealand
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10 July 2018

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 2018****Mitsui Sumitomo Insurance Company Limited - New Zealand Branch**

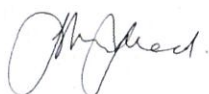
Finity Consulting Pty Limited (Finity) has been asked by Mitsui Sumitomo Insurance Company Limited, New Zealand Branch (Mitsui NZ) to carry out a review of the 31 March 2018 actuarial information contained in the financial statements and provide an opinion as to its appropriateness. John Smeed is an 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 2018 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 2018 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
**Fellow of the New Zealand
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Matthew Clere

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MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Financial Statements

For the years ended March 31, 2017 and March 31, 2018

(With Independent Auditor's Report Thereon)

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

Hitoshi Goto
Director, Managing 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, 2017 and 2018, and the statements of income and 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 ("Japanese GAAP"), 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, 2017 and 2018, and its financial performance for the years then ended in accordance with Japanese GAAP.

KPMG AZSA LLC

June 25, 2018
Tokyo, Japan

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets

As of March 31, 2017 and March 31, 2018

	2017	2018
	(in ¥ million)	
<u>Assets</u>		
Assets		
Cash, deposits and savings:		
Cash on hand	¥ 81	76
Deposits in banks	388,945	421,638
Total cash, deposits and savings	389,027	421,714
Receivables under resale agreements	6,999	6,999
Monetary claims bought	20,393	13,598
Money trusts	3,500	3,728
Investments in securities:		
Government bonds	1,263,321	1,192,826
Municipal bonds	88,898	88,038
Corporate bonds	495,736	524,990
Stock	1,806,870	1,937,182
Foreign securities	1,604,888	1,854,804
Other securities	34,974	37,792
Total investments in securities	5,294,691	5,635,635
Loans:		
Policy loans	7,672	7,133
General loans	410,474	386,228
Total loans	418,146	393,362
Tangible fixed assets:		
Land	77,391	76,499
Buildings	122,668	117,734
Construction in progress	390	569
Other tangible fixed assets	10,272	10,846
Total tangible fixed assets	210,723	205,648
Intangible fixed assets:		
Software	21,902	13,726
Other intangible fixed assets	18,203	31,591
Total intangible fixed assets	40,105	45,317

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2017	2018
	(in ¥ million)	
Other assets:		
Premiums receivable	¥ 3,330	4,122
Due from agencies	117,841	120,062
Co-insurance accounts receivable	9,257	7,407
Reinsurance accounts receivable	56,073	53,454
Foreign reinsurance accounts receivable	37,979	26,634
Agency business accounts receivable	619	534
Other receivables	38,881	41,300
Accrued income	6,228	6,059
Guarantee deposits	10,565	10,293
Deposits with Japan Earthquake Reinsurance Co., Ltd.	6,019	6,457
Suspense payments	38,488	35,327
Initial margins of future markets	-	316
Derivative financial instruments	25,651	15,052
Cash collateral pledged under derivative transactions	300	326
Other assets	<u>907</u>	<u>784</u>
Total other assets	352,144	328,137
Customers' liabilities under acceptances and guarantees	45,520	47,243
Bad debt reserve	<u>(4,175)</u>	<u>(3,169)</u>
Total assets	¥ <u>6,777,076</u>	<u>7,098,216</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2017	2018
	(in ¥ million)	
<u>Liabilities and Net Assets</u>		
Liabilities		
Policy liabilities:		
Outstanding claims	¥ 643,446	641,711
Underwriting reserves	<u>3,317,241</u>	<u>3,252,198</u>
Total policy liabilities	3,960,687	3,893,910
Bonds issued	256,191	386,191
Other liabilities:		
Co-insurance accounts payable	11,120	11,571
Reinsurance accounts payable	63,397	55,662
Foreign reinsurance accounts payable	28,144	22,483
Agency business accounts payable	12	12
Borrowings	196,767	196,767
Income taxes payable	39,277	48,653
Deposits received	32,469	61,793
Unearned income	31	34
Other payables	48,854	44,734
Suspense receipts	23,286	22,259
Derivative financial instruments	1,649	2,557
Cash collateral received under derivative transactions	62,168	34,218
Lease obligations	1,399	1,372
Asset retirement obligations	3,831	3,862
Other liabilities	<u>2,869</u>	<u>1,858</u>
Total other liabilities	515,281	507,840
Reserve for pension and retirement benefits	136,186	139,476
Reserve for retirement benefits for officers	612	516
Accrued bonuses for employees	10,453	10,145
Reserve for reorganization by function	3,015	2,261
Reserves under the special laws:		
Reserve for price fluctuation	<u>67,801</u>	<u>71,813</u>
Total reserves under the special laws	67,801	71,813
Deferred tax liabilities	136,275	161,817
Acceptances and guarantees	<u>45,520</u>	<u>47,243</u>
Total liabilities	<u>5,132,025</u>	<u>5,221,215</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2017	2018
	(in ¥ million)	
Net Assets		
Shareholder's equity:		
Common stock	¥ 139,595	139,595
Capital surplus:		
Additional paid-in capital	<u>93,107</u>	<u>93,107</u>
Total capital surplus	<u>93,107</u>	<u>93,107</u>
Retained earnings:		
Legal earned reserve	46,487	46,487
Other retained earnings:		
Tax-exempted reserve for accelerated depreciation	15,840	15,503
Retained earnings brought forward	<u>381,647</u>	<u>527,643</u>
Total other retained earnings	<u>397,487</u>	<u>543,146</u>
Total retained earnings	<u>443,975</u>	<u>589,634</u>
Total shareholder's equity	<u>676,678</u>	<u>822,337</u>
Valuation and translation adjustments:		
Net unrealized gains/(losses) on investments in securities	932,995	1,022,583
Net deferred gains/(losses) on hedges	<u>35,377</u>	<u>32,079</u>
Total valuation and translation adjustments	<u>968,372</u>	<u>1,054,662</u>
Total net assets	<u>1,645,050</u>	<u>1,877,000</u>
Total liabilities and net assets	¥ <u>6,777,076</u>	<u>7,098,216</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Income

For the years ended March 31, 2017 and March 31, 2018

	2017	2018
	(in ¥ million)	
<u>Ordinary income and expenses</u>		
Ordinary income:		
Underwriting income:		
Net premiums written	¥ 1,470,122	1,494,362
Deposit premiums from policyholders	70,040	60,092
Investment income on deposit premiums from Policyholders	35,508	33,443
Reversal of outstanding claims	6,283	1,734
Reversal of underwriting reserves	27,649	65,042
Other underwriting income	44	104
Total underwriting income	1,609,647	1,654,780
Investment income:		
Interest and dividends income	116,792	105,107
Investment gains on money trusts	517	239
Gains on sales of securities	71,738	122,213
Gains on redemption of securities	304	592
Gains on derivative transactions	4,405	4,564
Other investment income	780	640
Transfer of investment income on deposit premiums from policyholders	(35,508)	(33,443)
Total investment income	159,029	199,914
Other ordinary income	4,181	5,220
Total ordinary income	1,772,858	1,859,915
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	811,476	836,385
Loss adjustment expenses	87,834	87,345
Commissions and collection expenses	251,720	259,174
Maturity refunds to policyholders	167,151	173,672
Dividends to policyholders	466	244
Foreign exchange losses	736	470
Other underwriting expenses	519	385
Total underwriting expenses	1,319,905	1,357,678

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Income (Continued)

	2017	2018
	(in ¥ million)	
Investment expenses:		
Investment losses on money trusts	¥ 9	-
Losses on sales of securities	4,469	3,360
Impairment losses on securities	497	1,031
Losses on redemption of securities	447	237
Foreign exchange losses	1,624	1,869
Other investment expenses	<u>4,920</u>	<u>2,892</u>
Total investment expenses	11,968	9,391
Operating expenses and general and administrative expenses	217,601	222,577
Other ordinary expenses:		
Interest expense	6,325	6,721
Provision for bad debt reserve	1,160	-
Losses on bad debts	9	1
Other ordinary expenses	<u>345</u>	<u>991</u>
Total other ordinary expenses	<u>7,840</u>	<u>7,714</u>
Total ordinary expenses	<u>1,557,316</u>	<u>1,597,363</u>
Ordinary profit/(loss)	215,542	262,552
<u>Extraordinary income and losses</u>		
Extraordinary income:		
Gains on sales of fixed assets	<u>1,379</u>	<u>7,207</u>
Total extraordinary income	1,379	7,207
Extraordinary losses:		
Losses on sales of fixed assets	700	763
Impairment losses on fixed assets	489	860
Provision for reserves under the special laws:		
Provision for reserve for price fluctuation	<u>3,667</u>	<u>4,011</u>
Total provision for reserves under the special laws	3,667	4,011
Other extraordinary losses	<u>3,621</u>	<u>-</u>
Total extraordinary losses	<u>8,479</u>	<u>5,636</u>
Income/(loss) before income taxes	208,442	264,123
Income taxes-current	56,972	73,452
Income taxes-deferred	<u>(13,098)</u>	<u>(7,566)</u>
Total income taxes	<u>43,874</u>	<u>65,885</u>
Net income/(loss)	¥ <u>164,568</u>	<u>198,237</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Changes in Net Assets

For the years ended March 31, 2017 and March 31, 2018

For the year ended March 31, 2017

(in ¥ million)

	Shareholder's equity					
	Common stock	Capital surplus	Retained earnings			Total Shareholder's 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 shareholder's 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 shareholder's 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

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Changes in Net Assets (Continued)

For the year ended March 31, 2018

(in ¥ million)

	Shareholder's equity					
	Common stock	Capital surplus	Retained earnings			Total Shareholder's 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	15,840	381,647	676,678
Changes for the year						
Provision for tax-exempted reserve for accelerated depreciation						-
Reversal of tax-exempted reserve for accelerated depreciation				(336)	336	-
Dividends paid					(52,577)	(52,577)
Net income/(loss)					198,237	198,237
Net changes of items other than shareholder's equity						
Total changes for the year	-	-	-	(336)	145,996	145,659
Ending balance	¥ 139,595	93,107	46,487	15,503	527,643	822,337

	Valuation and translation adjustments		Total net assets
	Net unrealized gains/(losses) on investments in securities	Net deferred gains/(losses) on hedges	
Beginning balance	¥ 932,995	35,377	1,645,050
Changes for the year			
Provision for tax-exempted reserve for accelerated depreciation			-
Reversal of tax-exempted reserve for accelerated depreciation			-
Dividends paid			(52,577)
Net income/(loss)			198,237
Net changes of items other than shareholder's equity	89,587	(3,297)	86,290
Total changes for the year	89,587	(3,297)	231,949
Ending balance	¥ 1,022,583	32,079	1,877,000

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements

For the years ended March 31, 2017 and March 31, 2018

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 Rules of Corporate Accounting, 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 Rules of Corporate Accounting, amounts are rounded down to the nearest million of Japanese yen, except for those stated otherwise. As a result, the total amounts in Japanese yen shown in the accompanying non-consolidated financial statements 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 specifically managed for the Company for trading purposes are valued at their year-end market prices. Money trusts specifically managed for the Company, other than money trusts held for trading purposes and those 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

Monetary items denominated in foreign currencies are translated into Japanese yen using the spot exchange rate at the end of the reporting period, and the exchange differences are treated as profit or loss.

(6) Accounting 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 the departments responsible for respective assets and the results are reviewed by 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 of services rendered by officers and operating officers of the Company up to the year ended March 31, 2005, the date on which the retirement benefit plans for officers were terminated, is established based on the

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

estimated amounts to be paid at the year end to provide for future retirement benefits (including pension) for officers and operating officers of the Company.

(iv) Accrued bonuses for employees

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

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

Certain interest rate swap contracts used for the Asset and Liability Management (ALM) 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 the 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 related 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 related to the purchase of depreciable fixed assets that are not charged to expenses but deferred as Suspense payments and amortized over a period of five years on a straight-line basis.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets

For the years ended March 31, 2017 and March 31, 2018

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

(in ¥ million)	
March 31, 2017	March 31, 2018
148,870	207,822

(Note) The amounts in the above table are included in Government bonds, Stock and Foreign securities under Investments in securities as of March 31, 2017 and March 31, 2018.

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

(in ¥ million)		
	March 31, 2017	March 31, 2018
Loans to borrowers in bankruptcy	3	-
Overdue loans	132	103
Loans overdue for 3 months or more	365	279
Restructured loans	474	460
Total	975	843

(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 that 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:

	(in ¥ million)	
	March 31, 2017	March 31, 2018
Accumulated depreciation	276,783	273,676
Accelerated depreciation	14,327	14,242

(Note) As permitted under Japanese tax legislation for the purpose of deferral in recognizing taxable income, the 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, 2017 and March 31, 2018 were ¥14,327 million and ¥14,242 million, respectively.

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

	(in ¥ million)	
	March 31, 2017	March 31, 2018
Total amounts receivable	15,123	8,748
Total amounts payable	27,919	22,490

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

	(in ¥ million)	
	March 31, 2017	March 31, 2018
Deferred tax assets:		
Underwriting reserves	136,051	142,760
Reserve for pension and retirement benefits	38,032	38,914
Reserve for price fluctuation	18,916	20,035
Outstanding claims	20,932	18,940
Software	13,360	14,573
Investments in securities	15,496	13,221
Others	<u>23,813</u>	<u>21,599</u>
Total gross deferred tax assets	266,604	270,045
Less valuation allowance	<u>(14,097)</u>	<u>(12,263)</u>
Total net deferred tax assets	252,506	257,782
Deferred tax liabilities:		
Net unrealized gains on investments in securities	(361,294)	(395,701)
Others	<u>(27,487)</u>	<u>(23,898)</u>
Total gross deferred tax liabilities	<u>(388,782)</u>	<u>(419,599)</u>
Total deferred tax liabilities net of deferred tax assets	(136,275)	(161,817)

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

6. Guarantees and similar arrangements for subsidiaries and associates

March 31, 2017

(Guarantees)

The Company provides a guarantee of ¥47,072 million to the insurance business operated by its subsidiary, MSI Corporate Capital Limited.

(Arrangements similar to guarantees)

The Company has credit support guarantee agreements with seven of its overseas subsidiaries. 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.

March 31, 2018

(Guarantees)

The Company provides a guarantee of ¥48,282 million to the insurance business operated by MS Amlin Corporate Member Limited and other companies, subsidiaries of the Company.

(Arrangements similar to guarantees)

The Company has credit support guarantee agreements with eight of its overseas subsidiaries. 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 ¥247,651 million as of March 31, 2018.

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

	(in ¥ million)	
	March 31, 2017	March 31, 2018
Stock	1,105,498	1,294,130
Capital	22,520	24,537

8. The amounts of pledged assets are as follows:

	(in ¥ million)	
	March 31, 2017	March 31, 2018
Investments in securities	74,708	76,136

(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:

	(in ¥ million)	
	March 31, 2017	March 31, 2018
Gross outstanding claims (except for (b))	701,422	681,395
Reinsurance recoverable on unpaid losses	110,022	90,253
Net (a)	591,400	591,142
Outstanding claims related to earthquakes and compulsory automobile liability insurance (b)	52,046	50,569
Total (a) + (b)	643,446	641,711

(2) Details of Underwriting reserves are as follows:

	(in ¥ million)	
	March 31, 2017	March 31, 2018
Gross ordinary underwriting reserves	1,309,110	1,314,524
Reinsurance recoverable on underwriting reserves	76,806	79,715
Net (a)	1,232,303	1,234,808
Gross refund reserves	1,301,567	1,208,605
Reinsurance recoverable on refund reserves	4	1
Net (b)	1,301,562	1,208,603
Other underwriting reserves (c)	783,374	808,786
Total (a) + (b) + (c)	3,317,241	3,252,198

10. Information on business combination is included in “Consolidated Financial Statements - Notes to Consolidated Balance Sheets 10. Business combination”.

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

	March 31, 2017	March 31, 2018
Net assets per share (in ¥)	1,171.35	1,336.51
Amounts deducted from net assets (in ¥ million)	-	-
Outstanding common stock (in thousands of shares)	1,404,402	1,404,402

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

The Company provides guarantees on transactions conducted by a limited partnership entity. The aggregate net present values of these transactions were ¥192,303 million and ¥130,771 million, respectively, in a negative liability position as of March 31, 2017 and March 31, 2018. These amounts were not included in Customers' liabilities under acceptances and guarantees or Acceptances and guarantees since there was no substantial exposure.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

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

(in ¥ million)	
March 31, 2017	March 31, 2018
1,200	3,000

14. “Subsidiary”, “Associate” and “Affiliate” appearing elsewhere in the balance sheets and notes thereto refer to those defined in Article 2 of the Rules of Corporate Accounting.
15. Information on significant subsequent events is included in “Consolidated Financial Statements - Notes to Consolidated Balance Sheets 12. Business combination”.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income

For the years ended March 31, 2017 and March 31, 2018

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

	(in ¥ million)	
	For the year ended March 31, 2017	For the year ended March 31, 2018
Income	54,059	50,664
Expenses	55,270	56,887

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

	(in ¥ million)	
	For the year ended March 31, 2017	For the year ended March 31, 2018
Gross premiums written	1,817,664	1,835,059
Less reinsurance premiums ceded	347,542	340,696
Net	1,470,122	1,494,362

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

	(in ¥ million)	
	For the year ended March 31, 2017	For the year ended March 31, 2018
Gross claims paid	1,078,371	1,045,950
Less claim recoveries from reinsurance ceded	266,894	209,564
Net	811,476	836,385

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

	(in ¥ million)	
	For the year ended March 31, 2017	For the year ended March 31, 2018
Commissions and collection expenses paid	283,597	293,396
Less reinsurance commissions received	31,877	34,221
Net	251,720	259,174

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

	(in ¥ million)	
	For the year ended March 31, 2017	For the year ended March 31, 2018
Gross provision for/(reversal of) outstanding claims (except for (b))	(2,916)	(20,027)
Less reinsurance recoverable on unpaid losses	1,863	(19,769)
Net (a)	(4,780)	(258)
Provision for/(reversal of) outstanding claims related to earthquakes and compulsory automobile liability insurance (b)	(1,502)	(1,476)
Total (a) + (b)	(6,283)	(1,734)

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

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

	(in ¥ million)	
	For the year ended March 31, 2017	For the year ended March 31, 2018
Gross provision for/(reversal of) ordinary underwriting reserves	(5,182)	5,414
Less reinsurance recoverable on underwriting reserves	6,926	2,909
Net (a)	(12,108)	2,505
Provision for/(reversal of) refund reserves	(67,702)	(92,962)
Less reinsurance recoverable on refund reserves	0	(2)
Net (b)	(67,702)	(92,959)
Provision for/(reversal of) other underwriting reserves (c)	52,162	25,411
Total (a) + (b) + (c)	(27,649)	(65,042)

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

	(in ¥ million)	
	For the year ended March 31, 2017	For the year ended March 31, 2018
Interest on deposits and savings	628	740
Interest on receivables under resale agreements	0	0
Interest on monetary claims bought	505	353
Interest and dividends income on investments in securities	104,255	93,468
Interest on loans	4,980	4,045
Rental income on properties	6,306	6,477
Other interest income	115	21
Total	116,792	105,107

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

(in ¥ million)	
For the year ended March 31, 2017	For the year ended March 31, 2018
522	4

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

(in ¥ million)	
For the year ended March 31, 2017	For the year ended March 31, 2018
3,813	(6,358)

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, 2017	For the year ended March 31, 2018
Net income/(loss) per share (in ¥)	117.18	141.15
Net income/(loss) attributable to common stock (in ¥ million)	164,568	198,237
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, 2017, diluted net income/(loss) per share is not disclosed.
2. Since there was no potential dilution for the year ended March 31, 2018, diluted net income/(loss) per share is not disclosed.

5. Details of Other extraordinary losses are as follows:

For the year ended March 31, 2017

Other extraordinary losses represent costs of reorganization by function such as system development costs of ¥3,621 million (including a 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, 2017	For the year ended March 31, 2018
		(%)
Statutory income tax rate	28.2	28.2
Increase/(decrease) from:		
Tax exempted dividends income	(4.6)	(2.9)
Increase/(decrease) in valuation allowance	(3.1)	(0.7)
Aggregated taxable income earned by specified foreign subsidiaries	0.6	0.5
Others	(0.1)	(0.2)
Effective income tax rate	21.0	24.9

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

7. Related party transactions are as follows:

For the year ended March 31, 2017

Category	Company name	Voting rights (%)	Relationship	Transactions	Amounts (in ¥ millions)	Account	Balances (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 guarantee mainly for the Company’s housing loans executed to third-party customers. Transaction amounts represent guaranteed amounts outstanding as of March 31, 2017.

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

The Company and MS&AD Loan Services have a comprehensive guarantee contract under which the Company receives guarantee services from MS&AD Loan Services for loans provided by the Company to third-party debtors. The 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, 2018

There is no related party transactions to be disclosed.

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 Rules of Corporate Accounting.



MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Financial Statements
For the years ended March 31, 2017 and March 31, 2018

(With Independent Auditor's Report Thereon)

A handwritten signature in black ink, appearing to read "Masahiro Matsumoto", written over a horizontal line.

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

A handwritten signature in black ink, appearing to read "Hitoshi Goto", written over a horizontal line.

Hitoshi Goto
Director, Managing 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, 2017 and 2018, and the consolidated statements of income, comprehensive income, changes in net assets and 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 ("Japanese GAAP"), 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, 2017 and 2018, and their financial performance and cash flows for the years then ended in accordance with Japanese GAAP.

KPMG AZSA LLC

June 25, 2018
Tokyo, Japan

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

As of March 31, 2017 and March 31, 2018

	2017	2018
	(in ¥ million)	
<u>Assets</u>		
Assets		
Cash, deposits and savings	¥ 752,618	896,065
Receivables under resale agreements	6,999	6,999
Monetary claims bought	69,820	100,134
Money trusts	3,584	3,828
Investments in securities	5,364,323	5,567,171
Loans	412,169	396,179
Tangible fixed assets:		
Land	85,142	86,759
Buildings	130,184	125,247
Construction in progress	471	895
Other tangible fixed assets	<u>18,176</u>	<u>18,020</u>
Total tangible fixed assets	<u>233,974</u>	<u>230,923</u>
Intangible fixed assets:		
Software	39,262	29,910
Goodwill	136,182	209,658
Other intangible fixed assets	<u>179,633</u>	<u>248,023</u>
Total intangible fixed assets	<u>355,078</u>	<u>487,593</u>
Other assets	830,469	849,013
Deferred tax assets	7,594	23,500
Customers' liabilities under acceptances and guarantees	43,000	45,000
Bad debt reserve	<u>(8,918)</u>	<u>(8,331)</u>
Total assets	¥ <u>8,070,715</u>	<u>8,598,078</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets (Continued)

	2017	2018
	(in ¥ million)	
<u>Liabilities and Net Assets</u>		
Liabilities		
Policy liabilities:		
Outstanding claims	¥ 1,360,491	1,531,730
Underwriting reserves	<u>3,700,240</u>	<u>3,667,377</u>
Total policy liabilities	<u>5,060,732</u>	<u>5,199,108</u>
Bonds issued	256,191	386,191
Other liabilities	653,060	735,149
Liabilities for pension and retirement benefits	167,546	157,468
Reserve for retirement benefits for officers	612	516
Accrued bonuses for employees	20,033	18,975
Reserve for reorganization by function	3,015	2,261
Reserves under the special laws:		
Reserve for price fluctuation	<u>67,801</u>	<u>71,813</u>
Total reserves under the special laws	<u>67,801</u>	<u>71,813</u>
Deferred tax liabilities	163,590	196,891
Acceptances and guarantees	<u>43,000</u>	<u>45,000</u>
Total liabilities	<u>6,435,584</u>	<u>6,813,373</u>
Net Assets		
Shareholders' equity:		
Common stock	139,595	139,595
Capital surplus	86,104	86,104
Retained earnings	<u>528,315</u>	<u>549,750</u>
Total shareholders' equity	<u>754,015</u>	<u>775,450</u>
Accumulated other comprehensive income/(loss):		
Net unrealized gains/(losses) on investments in securities	937,531	1,034,215
Net deferred gains/(losses) on hedges	23,469	19,835
Foreign currency translation adjustments	(83,684)	(64,338)
Accumulated actuarial gains/(losses) on retirement benefits	<u>(21,192)</u>	<u>(10,844)</u>
Total accumulated other comprehensive income/(loss)	<u>856,123</u>	<u>978,867</u>
Non-controlling interests	<u>24,991</u>	<u>30,387</u>
Total net assets	<u>1,635,131</u>	<u>1,784,704</u>
Total liabilities and net assets	¥ <u>8,070,715</u>	<u>8,598,078</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income

For the years ended March 31, 2017 and March 31, 2018

	2017	2018
	(in ¥ million)	
<u>Ordinary income and expenses</u>		
Ordinary income:		
Underwriting income:		
Net premiums written	¥ 2,103,028	2,110,436
Deposit premiums from policyholders	70,040	60,092
Investment income on deposit premiums from policyholders	35,508	33,443
Life insurance premiums	11,922	13,320
Reversal of underwriting reserves	8,481	57,104
Other underwriting income	147	12,642
Total underwriting income	<u>2,229,127</u>	<u>2,287,040</u>
Investment income:		
Interest and dividends income	115,038	107,881
Investment gains on money trusts	517	239
Investment gains on trading securities	50,255	29,424
Gains on sales of securities	77,207	125,909
Gains on redemption of securities	337	629
Other investment income	10,271	1,093
Transfer of investment income on deposit premiums from policyholders	<u>(35,508)</u>	<u>(33,443)</u>
Total investment income	<u>218,118</u>	<u>231,734</u>
Other ordinary income:		
Gains on equity method investments	2,112	3,017
Other ordinary income	10,217	9,689
Total other ordinary income	<u>12,329</u>	<u>12,707</u>
Total ordinary income	<u>2,459,576</u>	<u>2,531,482</u>
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	1,121,343	1,210,889
Loss adjustment expenses	103,783	104,749
Commissions and collection expenses	372,486	381,848
Maturity refunds to policyholders	167,151	173,672
Dividends to policyholders	466	244
Life insurance claims	92	71
Provision for outstanding claims	42,285	121,324
Other underwriting expenses	21,482	948
Total underwriting expenses	<u>1,829,091</u>	<u>1,993,749</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income (Continued)

	2017	2018
	(in ¥ million)	
Investment expenses:		
Investment losses on money trusts	¥ 9	-
Losses on sales of securities	7,152	4,447
Impairment losses on securities	947	1,164
Losses on redemption of securities	887	237
Losses on derivative transactions	24,560	9,131
Other investment expenses	5,753	8,642
Total investment expenses	<u>39,310</u>	<u>23,623</u>
Operating expenses and general and administrative Expenses	<u>359,059</u>	<u>375,473</u>
Other ordinary expenses:		
Interest expense	7,778	6,732
Provision for bad debt reserve	1,670	-
Losses on bad debts	109	90
Other ordinary expenses	1,192	2,778
Total other ordinary expenses	<u>10,751</u>	<u>9,600</u>
Total ordinary expenses	<u>2,238,212</u>	<u>2,402,447</u>
Ordinary profit/(loss)	<u>221,363</u>	<u>129,034</u>
<u>Extraordinary income and losses</u>		
Extraordinary income:		
Gains on sales of fixed assets	1,404	7,674
Total extraordinary income	<u>1,404</u>	<u>7,674</u>
Extraordinary losses:		
Losses on sales of fixed assets	928	783
Impairment losses on fixed assets	3,071	2,024
Provision for reserves under the special laws:		
Provision for reserve for price fluctuation	3,667	4,011
Total provision for reserves under the special laws	<u>3,667</u>	<u>4,011</u>
Other extraordinary losses	<u>8,940</u>	<u>-</u>
Total extraordinary losses	<u>16,609</u>	<u>6,819</u>
Income/(loss) before income taxes	<u>206,158</u>	<u>129,889</u>
Income taxes – current	¥ 69,048	82,707
Income taxes - deferred	<u>(20,888)</u>	<u>(30,187)</u>
Total income taxes	<u>48,160</u>	<u>52,520</u>
Net income/(loss)	<u>¥ 157,998</u>	<u>77,369</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income (Continued)

	2017	2018
	(in ¥ million)	
Net income/(loss) attributable to non-controlling interests	2,542	2,425
Net income/(loss) attributable to owners of the parent	155,455	74,943

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2017 and March 31, 2018

		2017	2018
		(in ¥ million)	
Net income/(loss)	¥	157,998	77,369
Other comprehensive income/(loss):			
Net unrealized gains/(losses) on investments in securities		30,960	94,111
Net deferred gains/(losses) on hedges		(16,644)	(3,520)
Foreign currency translation adjustments		(103,350)	21,867
Actuarial gains/(losses) on retirement benefits		(616)	10,331
Share of other comprehensive income/(loss) of equity method investments		<u>1,298</u>	<u>500</u>
Total other comprehensive income/(loss)		<u>(88,352)</u>	<u>123,290</u>
Total comprehensive income/(loss)	¥	<u>69,646</u>	<u>200,659</u>
Allocation:			
Comprehensive income/(loss) attributable to owners of the parent	¥	68,730	196,756
Comprehensive income/(loss) attributable to non-controlling interests		915	3,903

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2017 and March 31, 2018

For the year ended March 31, 2017

(in ¥ million)

	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 resulting from transactions with non-controlling interests		(617)		(617)
Adjustments of retained earnings pertaining to the U.S. tax reform				-
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 resulting from transactions with non-controlling interests							(617)
Adjustments of retained earnings pertaining to the U.S. tax reform							-
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

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Changes in Net Assets (Continued)

For the year ended March 31, 2018

(in ¥ million)

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Total shareholders' equity
Beginning balance	¥ 139,595	86,104	528,315	754,015
Changes for the year:				
Dividends paid			(52,577)	(52,577)
Net income/(loss) attributable to owners of the parent			74,943	74,943
Changes in scope of consolidation				-
Changes in equity resulting from transactions with non-controlling interests				-
Adjustments of retained earnings pertaining to the U.S. tax reform			(931)	(931)
Net changes of items other than shareholders' equity				
Total changes for the year	-	-	21,434	21,434
Ending balance	¥ 139,595	86,104	549,750	775,450

	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	¥ 937,531	23,469	(83,684)	(21,192)	856,123	24,991	1,635,131
Changes for the year:							
Dividends paid							(52,577)
Net income/(loss) attributable to owners of the parent							74,943
Changes in scope of consolidation							-
Changes in equity resulting from transactions with non-controlling interests							-
Adjustments of retained earnings pertaining to the U.S. tax reform							(931)
Net changes of items other than shareholders' equity	96,684	(3,633)	19,345	10,347	122,743	5,395	128,139
Total changes for the year	96,684	(3,633)	19,345	10,347	122,743	5,395	149,573
Ending balance	¥ 1,034,215	19,835	(64,338)	(10,844)	978,867	30,387	1,784,704

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended March 31, 2017 and March 31, 2018

	2017	2018
	(in ¥ million)	
I. Cash flows from operating activities:		
Income/(loss) before income taxes	¥ 206,158	129,889
Adjustments for:		
Depreciation	39,263	40,758
Impairment losses on fixed assets	3,071	2,024
Amortization of goodwill	9,293	9,341
Increase/(decrease) in outstanding claims	52,189	101,633
Increase/(decrease) in underwriting reserves	(7,750)	(61,401)
Increase/(decrease) in bad debt reserve	1,332	(924)
Increase/(decrease) in reserve for retirement benefits for officers	(149)	(95)
Increase/(decrease) in accrued bonuses for employees	(3,329)	(1,489)
Increase/(decrease) in reserve for reorganization by function	3,015	(754)
Increase/(decrease) in liabilities for pension and retirement benefits	(786)	3,482
Increase/(decrease) in reserve for price fluctuation	3,667	4,011
Interest and dividends income	(115,038)	(107,881)
Losses/(gains) on investments in securities	(118,813)	(150,114)
Losses/(gains) on derivative transactions	24,560	9,131
Interest expense	7,778	6,732
Foreign exchange losses/(gains)	(3,535)	(917)
Losses/(gains) on disposal of tangible fixed assets	(477)	(7,020)
Losses/(gains) on equity method investments	(2,112)	(3,017)
Decrease/(increase) in other assets	(56,478)	40,673
Increase/(decrease) in other liabilities	20,710	(8,837)
Other, net	(20,543)	(10,980)
Subtotal	42,029	(5,755)
Interest and dividends received	118,606	116,849
Interest paid	(9,802)	(6,297)
Income taxes refunded/(paid)	(58,775)	(78,401)
Net cash provided by/(used in) operating activities (a)	92,057	26,395

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

	2017	2018
	(in ¥ million)	
II. Cash flows from investing activities:		
Net decrease/(increase) in deposits and savings	¥ 1,959	(14,231)
Purchase of monetary claims bought	-	(2,601)
Proceeds from sales and redemption of monetary claims bought	17,097	37,842
Purchase of money trusts	(26)	(15)
Proceeds from sales of money trusts	9,970	7
Purchase of securities	(1,607,803)	(2,033,846)
Proceeds from sales and redemption of securities	1,782,717	1,960,157
Investment in loans	(75,697)	(59,407)
Collection of loans	112,204	78,244
Other, net	8,141	15,586
Subtotal (b)	<u>248,564</u>	<u>(18,263)</u>
(a + b)	<u>340,621</u>	<u>8,131</u>
Acquisition of tangible fixed assets	(8,778)	(8,598)
Proceeds from sales of tangible fixed assets	2,832	10,040
Acquisition of intangible fixed assets	(16,388)	(20,860)
Acquisition of shares of subsidiaries resulting in changes in scope of consolidation	-	(84,024)
Other, net	(4,120)	(2,336)
Net cash provided by/(used in) investing activities	<u>222,108</u>	<u>(124,042)</u>
III. Cash flows from financing activities:		
Proceeds from borrowings	32,651	55,027
Repayments of borrowings	(141,389)	(30,342)
Issuance of bonds	-	129,133
Redemption of bonds	(33,890)	-
Dividends paid to shareholders	(73,237)	(52,577)
Dividends paid to non-controlling interests	(1,202)	(1,048)
Purchase of shares of subsidiaries not resulting in changes in scope of consolidation	(617)	-
Other, net	(834)	(796)
Net cash provided by/(used in) financing activities	<u>(218,521)</u>	<u>99,394</u>
IV. Effect of exchange rate changes on cash and cash equivalents	<u>(2,455)</u>	<u>6,879</u>
V. Net increase/(decrease) in cash and cash equivalents	<u>93,189</u>	<u>8,626</u>
VI. Cash and cash equivalents at beginning of year	<u>614,880</u>	<u>707,167</u>
VII. Decrease in cash and cash equivalents due to exclusion from scope of consolidation	(903)	-
VIII. Cash and cash equivalents at end of year	¥ <u>707,167</u>	<u>715,793</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies

For the years ended March 31, 2017 and March 31, 2018

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 Rules of Corporate Accounting, 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 for 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 Rules of Corporate Accounting, amounts are rounded down to the nearest million of Japanese yen, except for those stated otherwise. As a result, the total amounts in Japanese yen shown in the accompanying consolidated financial statements 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 Rules of Corporate Accounting.

2. Scope of consolidation

(1) Number of consolidated subsidiaries

62 companies

Major consolidated subsidiaries are as follows:

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

Changes in scope of consolidation

MS First Capital Insurance Limited has been included in the scope of consolidation since the year ended March 31, 2018 as it became a consolidated subsidiary due to the Company’s acquisition of shares.

Solo Absolute Bonds and Currency Fund and 14 other companies have been excluded from the scope of consolidation during the year ended March 31, 2018 as they are no longer consolidated subsidiaries due to the withdrawal of capital or sales of their shares.

(2) Unconsolidated subsidiaries

Major unconsolidated subsidiary is as follows:

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

MSK Anshin Station Company, Limited

Certain subsidiaries including the above subsidiary are not consolidated, as they are not considered to have any impact on, 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

14 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

Bellarmino Ltd and 2 other companies have become equity method affiliates during the year ended March 31, 2018 due to the Company's acquisition of shares.

Miles Smith Holdings Limited has been excluded from the scope of application of the equity method during the year ended March 31, 2018 due to sales of its 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 the 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 60 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 its fiscal year end.

The Company makes adjustments to incorporate significant transactions occurred during the intervening period that materially affect the consolidated financial statements.

5. Accounting policies

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

(i) 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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

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 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 the departments responsible for the respective assets and the results are reviewed by independent internal audit departments.

For domestic consolidated subsidiaries, bad debt reserve is established under their

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

internal standards for self-assessment of assets and policies for 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 of services rendered by officers and operating officers of the Company up to the year ended March 31, 2005, the date on 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 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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

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 related 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 related to the purchase of depreciable fixed assets that 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 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 foreign currency borrowings for hedging risks of variability in foreign exchange rates on investments in subsidiaries. Gains and losses on those financial instruments are accounted for under the deferred hedge method. In addition, certain foreign exchange forward contracts are used for hedging instruments in certain overseas consolidated subsidiaries and those are accounted for under the fair value hedge method.

Hedge effectiveness is assessed quarterly by comparing cumulative fluctuations in fair value or cash flows of the hedged items and hedging instruments for the periods from the respective start dates of the hedges to the assessment dates. When the hedged items and the

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

hedging instruments are highly and clearly interrelated, when the interest rate swap contracts meet the criteria for the application of the exceptional method, or when the interest rate and currency swap contracts meet the criteria for the application of the integrated method, hedge effectiveness is not assessed.

Certain interest rate swap contracts used for Asset and Liability Management (ALM) 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 the 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. Cash and cash equivalents on the consolidated statement of cash flows

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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets

As of March 31, 2017 and 2018

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

	(in ¥ million)	
	March 31, 2017	March 31, 2018
Accumulated depreciation	296,051	298,316
Accelerated depreciation	14,327	14,242

(Note) As permitted under Japanese tax legislation for the purpose of deferral in recognizing taxable income, the 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, 2017 and March 31, 2018 were ¥14,327 million and ¥14,242 million, respectively.

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

	(in ¥ million)	
	March 31, 2017	March 31, 2018
Investments in securities (Domestic stocks)	10,966	11,516
Investments in securities (Foreign securities)	142,454	141,993
Investments in securities (Other securities)	11,399	13,797

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

	(in ¥ million)	
	March 31, 2017	March 31, 2018
Loans to borrowers in bankruptcy	3	-
Overdue loans	132	103
Loans overdue for three months or more	365	279
Restructured loans	474	460
Total	975	843

(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 that 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:

	(in ¥ million)	
	March 31, 2017	March 31, 2018
Investments in securities	228,335	290,122
Cash, deposits and savings	23,755	3,816

(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:

	(in ¥ million)	
	March 31, 2017	March 31, 2018
	148,870	207,822

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

The Company provides guarantees on transactions conducted by a limited partnership entity. Aggregate net present value of these transactions was ¥192,303 million and ¥130,771 million, respectively in a negative liability position as of March 31, 2017 and March 31, 2018. These amounts were not included in Customers' liabilities under acceptances and guarantees or Acceptances and guarantees since there was no substantial exposure.

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

	(in ¥ million)	
	March 31, 2017	March 31, 2018
	1,200	3,000

8. Information on financial instruments

(1) Qualitative information on financial instruments

(i) Policy on financial instruments

The Company and its consolidated subsidiaries ("the Group") apply ALM policies to maintain stability of investment returns, safety of assets and sufficient liquidity under an appropriate risk management framework to attain 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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

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. To enhance efficiency of funds operations and strengthen financial capacity under such changing conditions, the Company undertakes to raise funds through the 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 the 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 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".

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. To mitigate credit risks arising from the non-performance of counterparties, most of the Group's derivative transactions are executed only with select counterparties of high credit quality and diversified among various counterparties. Furthermore, under Credit Support Annex (CSA), the Group obtains collateral from counterparties.

(iii) Risk management structure related 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 that 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 Value-at-Risk (VaR) method and risk limit management based on asset and liability position, and regularly reports the results to the Board of Directors.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

(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 the 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.

(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 the 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 related 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, 2017 and March 31, 2018 together with their differences. The following tables exclude financial instruments in which the fair values are not practically determinable (see Note 2).

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

March 31, 2017

			(in ¥ million)
	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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

March 31, 2018

			(in ¥ million)
	Carrying amount	Fair value	Difference
(i) Cash, deposits and savings	896,065	896,156	90
(ii) Receivables under resale agreements	6,999	6,999	-
(iii) Monetary claims bought	100,134	100,134	-
(iv) Money trusts	3,828	3,828	-
(v) Investments in securities:			
Trading securities	748,032	748,032	-
Available-for-sale securities	4,579,830	4,579,830	-
(vi) Loans	396,179		
Bad debt reserve (*1)	(61)		
	396,118	401,442	5,324
Total assets	6,731,009	6,736,424	5,415
Bonds issued	386,191	403,949	17,758
Total liabilities	386,191	403,949	17,758
Derivative transactions (*2):			
Hedge accounting not applied	21,284	21,284	-
Hedge accounting applied	11,725	11,725	-
Total derivative transactions	33,010	33,010	-

(*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 within a short period.

(iii) Monetary claims bought

With regard to commercial papers (CP), the price quoted by 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 within a short period. With regard to Monetary claims bought other than CP, the price quoted by counterparty financial institutions is deemed as the fair value.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

(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, while the fair value of bonds is determined based on the price quoted by exchanges, independent price vendors 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 that 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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

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

	(in ¥ million)	
	March 31, 2017	March 31, 2018
Unlisted stocks and other assets invested in unconsolidated subsidiaries and associates	164,820	167,307
Other unlisted stocks	26,785	25,068
Unlisted investment trusts	12,651	21,671
Partnership investments comprising unlisted stocks	40,031	25,260
Total	244,288	239,308

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.

9. 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:

	(in ¥ million)	
	March 31, 2017	March 31, 2018
Carrying amount	36,722	40,921
Fair value	107,387	112,655

(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.

10. Business combination

(Business combination through acquisition)

The Company acquired shares of First Capital Insurance Limited (“FC”). FC is the largest non-life insurance company in Singapore and was affiliated with Fairfax Financial Holdings Limited (“Fairfax”), a leading insurance and financial services group in Canada. As a result of this acquisition, FC became a subsidiary of the Company and was renamed to MS First Capital Insurance Limited (“MSFC”).

(1) Overview of business combination

- (i) Name and business description of acquired company

Name of acquired company: First Capital Insurance Limited
Description of business: Non-life insurance business

- (ii) Primary reasons for business combination

With the acquisition of FC, the Company aims to achieve high growth and enhance

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

profitability in Singapore market, maintain and develop its leading position in the ASEAN market, and realize further growth in the global market through its partnership with Fairfax.

(iii) Date of business combination

December 28, 2017 (deemed date of acquisition: December 31, 2017)

(iv) Legal form of business combination

Acquisition of shares

(v) Name of acquired company after the business combination

MS First Capital Insurance Limited

(vi) Percentage share of voting rights acquired

97.7%

(vii) Primary reasons for determination of controlling company

The Company is the controlling entity, as the Company acquired 97.7% of voting rights of FC.

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

The acquired company's fiscal year end is December 31 and the intervening period does not exceed three months from the Company's fiscal year end, therefore the Company uses the financial statements of the acquired company as of December 31, 2017 for consolidation purposes. The acquired company's financial results are not included in the consolidated statement of income for the year ended March 31, 2018, because the deemed acquisition date was December 31, 2017 and only the balance sheet as of December 31, 2017 is consolidated.

(3) Acquisition cost and breakdown by class of consideration

	(SGD in millions)
Consideration for acquisition	Cash 2,214
Total acquisition cost	2,214

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

Advisory fee and others ¥1,057 million

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

(i) Amount of goodwill

SGD 901 million

(ii) Source of goodwill

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

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

(iii) Amortization method and period

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

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

	(in SGD million)
Cash, deposits and savings	1,177
Intangible fixed assets	679
Other assets	901
Total assets	2,757
Policy liabilities	1,090
Other liabilities	336
Total liabilities	1,426

(7) Detail of contingent consideration specified in the agreement of business combination and accounting policy after the completion of business combination during the current fiscal year

(i) Details of contingent consideration

As per the business combination agreement, the contingent consideration for the acquisition will be increased or decreased based on the revaluation at some point in the future in relation to the acquired company's insurance liabilities at the date of the business combination.

(ii) Accounting policy after the completion of business combination during the current fiscal year

If there is increase or decrease in the consideration for acquisition, the acquisition price as well as amount of goodwill and amortization of goodwill are adjusted accordingly.

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

	March 31, 2017	March 31, 2018
Net assets per share (in ¥)	1,146.49	1,249.15
Non-controlling interests deducted from net assets (in ¥ million)	24,991	30,387
Outstanding common shares (in thousands)	1,404,402	1,404,402

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

12. Significant subsequent events

The Company reached an agreement with Colonial Mutual Life Assurance Society Limited (“CMLA”), a life insurance subsidiary of a leading Australian bank, Commonwealth Bank of Australia on May 22, 2018, to purchase from CMLA 37.5% shares in BoCommLife Insurance Company Limited, a China-based subsidiary of Bank of Communications Co., Ltd. (“BoComm”).

(1) Objectives of the investment

The Company aims to enhance profitability and achieve further risk diversification by entering into China’s life insurance market; secure strong business base in the country’s life insurance market by partnering with BoComm (one of the major five Chinese banks); and develop a strong, stable and lasting bancassurance channel.

(2) Name of the counterparty of the share acquisition

Colonial Mutual Life Assurance Society Limited

(3) Name, business and size of the company whose shares are acquired

Company name: BoCommLife Insurance Company Limited

Business: Life insurance business

Company size as at the end of December 2017: Total assets RMB 33,256 million

(4) Investment amount and shareholding ratio after the acquisition

Investment amount: RMB 4.325 billion

Shareholding ratio after the acquisition: 37.5%

(5) Scheduled date of the share acquisition

Subject to the receipt of approvals from the relevant authorities, etc.

(6) Source of fund

Cash on hand held by the Company

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Income

For the years ended March 31, 2017 and March 31, 2018

1. Major components of business expenses are as follows:

	(in ¥ million)	
	For the year ended March 31, 2017	For the year ended March 31, 2018
Commission expenses	359,744	372,583
Salaries	173,396	179,539

(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, 2017

(in ¥ million)					
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		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 consolidated 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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Income (Continued)

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

For 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 at present, is recognized as impairment losses.

For the year ended March 31, 2018

Use	Category	Description	(in ¥ million)		
			Impairment losses on fixed assets	Breakdown	
Idle real estate and real estate for sale	Land and buildings	14 properties, including a company residence in Chiba	860	Land Buildings	437 423
Other (idle assets)	Software and others	Software held by overseas consolidated subsidiaries	1,163	Other tangible fixed assets Software	291 872

Fixed assets used for the insurance business operations are grouped as a single asset group by each consolidated insurance company. Other assets such as investment properties, idle assets and assets for sale are grouped on an individual basis.

As the idle real estate and real estate for sale in the above table were to be disposed in the near future or determined to be torn down, the aggregate difference between the carrying amounts of the assets and recoverable amounts was recognized as impairment losses on fixed assets under Extraordinary losses.

The recoverable amounts of assets to be disposed represent their net sales value, which are determined based on the appraisal value provided by qualified appraisers, while the recoverable amounts of assets determined to be torn down represent their residual value.

For other idle assets, the portion of carrying amounts of the software being held by overseas consolidated subsidiaries, which there is no definite plan to use with, is recognized as impairment losses.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Income (Continued)

3. Details of Other extraordinary losses are as follows:

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 (including a provision for reserve for reorganization by function of ¥3,015 million).

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

	For the year ended March 31, 2017	For the year ended March 31, 2018
Net income/(loss) attributable to owners of the parent per share (in ¥)	110.69	53.36

(Notes)

1. Since there was no potential dilution for the years ended March 31, 2017 and 2018, diluted net income/(loss) per share is not disclosed.
2. The basis of calculation is as follows:

	For the year ended March 31, 2017	For the year ended March 31, 2018
Net income/(loss) attributable to owners of the parent (in ¥ million)	155,455	74,943
Average outstanding common stock during the year (in thousands of shares)	1,404,402	1,404,402

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statement of Comprehensive Income

For the years ended March 31, 2017 and March 31, 2018

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

	2017	2018
	(in ¥ million)	
Net unrealized gains/(losses) on investments in securities:		
Gains/(losses) arising during the period	114,985	249,921
Reclassification adjustments	<u>(72,203)</u>	<u>(121,376)</u>
Before income tax effect adjustments	42,782	128,544
Income tax effects	<u>(11,821)</u>	<u>(34,433)</u>
Net unrealized gains/(losses) on investments in Securities	<u>30,960</u>	<u>94,111</u>
Net deferred gains/(losses) on hedges:		
Gains/(losses) arising during the period	(13,294)	549
Reclassification adjustments	<u>(5,208)</u>	<u>(5,368)</u>
Before income tax effect adjustments	(18,503)	(4,819)
Income tax effects	<u>1,858</u>	<u>1,298</u>
Net deferred gains/(losses) on hedges	<u>(16,644)</u>	<u>(3,520)</u>
Foreign currency translation adjustments:		
Gains/(losses) arising during the period	<u>(103,350)</u>	<u>21,867</u>
Actuarial gains/(losses) on retirement benefits:		
Gains/(losses) arising during the period	(5,050)	8,511
Reclassification adjustments	<u>5,343</u>	<u>5,731</u>
Before income tax effect adjustments	292	14,243
Income tax effects	<u>(909)</u>	<u>(3,912)</u>
Actuarial gains/(losses) on retirement benefits	<u>(616)</u>	<u>10,331</u>
Share of other comprehensive income/(loss) of equity method investments:		
Gains/(losses) arising during the period	3,337	1,788
Reclassification adjustments	<u>(2,039)</u>	<u>(1,288)</u>
Share of other comprehensive income/(loss) of equity method investments	<u>1,298</u>	<u>500</u>
Total other comprehensive income/(loss)	<u>(88,352)</u>	<u>123,290</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, 2017 and March 31, 2018

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 (in ¥ million)	Dividends per share (in ¥)	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

(2) 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 (in ¥ million)	Source of dividends	Dividends per share (in ¥)	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
AND ITS CONSOLIDATED SUBSIDIARIES

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

For the year ended March 31, 2018

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 (in ¥ million)	Dividends per share (in ¥)	Date of record	Effective date
Board meeting held on May 17, 2017	Common stock	36,680	26.11	March 31, 2017	May 22, 2017
Board meeting held on November 14, 2017	Common stock	15,896	11.31	-	November 24, 2017

(2) Dividends declared effective after March 31, 2018 for which the date of record is in the year ended March 31, 2018

Resolution	Type of shares	Aggregate amount of dividends (in ¥ million)	Source of dividends	Dividends per share (in ¥)	Date of record	Effective date
Board meeting held on May 16, 2018	Common stock	53,280	Retained earnings	37.93	March 31, 2018	May 25, 2018

3. Adjustments of retained earnings pertaining to the US tax reform

The consolidated subsidiaries of the Company located in the United States have adopted ASU 2018-02 Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income. The effect of the decrease in the US federal corporate income tax rate resulting from the Tax Cuts and Jobs Act is reclassified from accumulated other comprehensive income to retained earnings for the year ended March 31, 2018.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Cash Flows

For the years ended March 31, 2017 and March 31, 2018

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

	(in ¥ million)	
	2017	2018
Cash, deposits and savings	752,618	896,065
Receivables under resale agreements	6,999	6,999
Monetary claims bought	69,820	100,134
Investments in securities	5,364,323	5,567,171
Time deposits with original maturities of more than three months	(126,284)	(212,701)
Monetary claims bought other than cash equivalents	(61,279)	(94,551)
Investments in securities other than cash equivalents	(5,299,031)	(5,547,324)
Cash and cash equivalents	707,167	715,793

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Cash Flows (Continued)

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

For the year ended March 31, 2018

MSFC 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 MSFC's shares and net consideration paid for acquisition of MSFC are as follows:

	(in ¥ million)
Cash, deposits and savings	99,525
Intangible fixed assets	57,394
Other assets	76,084
	233,003
Goodwill	76,149
Policy liabilities	(92,155)
Other liabilities	(28,352)
Total liabilities	(120,507)
Foreign currency translation adjustments	(2,519)
Non-controlling interests	(2,576)
Acquisition cost of MSFC's shares	183,549
Less: Cash and cash equivalents held at MSFC	99,525
Net consideration paid for acquisition of MSFC	84,024

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