

**mitsui sumitomo insurance company limited - new zealand
branch**

financial statements

for the year ended 31 march 2019

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The Board of Directors is pleased to present the financial statements of Mitsui Sumitomo Insurance Company Limited - New Zealand Branch, incorporating the auditor's report for the year ended 31 March 2019.

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.

STATEMENT OF COMPREHENSIVE INCOME
For the year end 31 March 2019

	Notes	2019 \$	2018 \$
Gross earned premium	1	8,690,453	7,657,350
Reinsurance expense	2	(4,028,163)	(3,141,987)
Net Premium Revenue		4,662,290	4,515,363
Claims Expense	4	1,142,646	239,528
Reinsurance and Other Recoveries	1	97,076	87,417
Net Claims Expense		1,239,722	326,945
Commissions		(397,805)	(380,061)
Reinsurance commission income	1	539,424	391,349
Net Acquisition Costs		141,619	11,288
Underwriting Result		6,043,631	4,853,596
Operating Expenses	3	(1,114,861)	(1,137,064)
Investment income	1	1,343,949	1,343,270
Sundry income	1	244	164
Net Profit Before Tax		6,272,963	5,059,966
Taxation expense	5	-	-
Net Profit for the Year		6,272,963	5,059,966
Other comprehensive income for the year		-	-
Total Comprehensive Income for the Year		6,272,963	5,059,966

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

STATEMENT OF MOVEMENT IN HEAD OFFICE ACCOUNT
For the year ended 31 March 2019

	2019 \$	2018 \$
Opening Head Office Balance	51,297,078	46,237,112
Net Profit for the Year	6,272,963	5,059,966
Total Comprehensive Income for the Year	6,272,963	5,059,966
Closing Head Office Balance	57,570,041	51,297,078

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

STATEMENT OF FINANCIAL POSITION
As at 31 March 2019

	Notes	31 March 2019 \$	31 March 2018 \$
Assets			
Cash and Cash Equivalents		61,561,531	61,714,210
Premium Receivables		1,653,703	1,412,208
Taxation Receivable		-	4,285
Other Current Assets	6	907,489	1,331,124
Reinsurance Receivable		14,557,885	8,837,707
Reinsurance Recoveries	7	28,381,933	34,084,168
Total Assets		107,062,541	107,383,702
Liabilities			
Accounts Payable	8	337,701	362,326
Reinsurance Payable		274,216	910,907
Other Current Liabilities	9	290,773	330,301
Unearned Premium Reserve	10	2,719,069	2,645,796
Outstanding Claims Liability	11	42,409,810	48,981,119
Due to Related Parties	15	3,460,931	2,856,175
Total Liabilities		49,492,500	56,086,624
Net Assets		57,570,041	51,297,078
Head Office Account		57,570,041	51,297,078

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.

15/07/2019

Date



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

15/07/2019

Date

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

STATEMENT OF CASH FLOWS
For the year ended 31 March 2019

	Notes	2019 \$	2018 \$
Cash flows from operating activities			
Premiums received		8,522,230	7,805,789
Reinsurance and other recoveries received		79,133	107,555
Interest received		1,335,282	1,339,887
Claims paid		(5,428,663)	(2,252,181)
Reinsurance premiums paid		(4,368,343)	(3,122,601)
Net acquisition costs		230,265	(13,827)
Operating expenses paid		(522,583)	(948,461)
Net cash from/ (used in) operating activities	17	(152,679)	2,916,161
Cash flows from investing activities			
Receipt of investments on maturity		-	-
Net cash from/ (used in) investing activities		-	-
Net increase (decrease) in cash and cash equivalents		(152,679)	2,916,161
Cash and cash equivalents at the beginning of the financial year		61,714,210	58,798,049
Cash and cash equivalents at the end of the financial year		61,561,531	61,714,210

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 2019

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 2019. The financial statements were authorised for issue by the Directors on the 15th July of 2019.

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 21. These relate to the outstanding claims liability and reinsurance recoveries in Notes 11 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 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 2019

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
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

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 adjusters 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 2019 (2018: 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
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

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
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

Significant Accounting Policies (Continued)

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 18 Solvency.

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

Significant Accounting Policies (Continued)

New accounting standards and amendments issued

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016, have been assessed in preparing these financial statements.

NZ IFRS 9 Financial Instruments introduced changes in the classification and measurement of financial assets and liabilities. Rights and obligations arising under an insurance contract as defined in NZ IFRS 4 are excluded from the scope of NZ IFRS 9.

The transition to NZ IFRS 9 does not result in any changes to the Branch's classification of financial assets and financial liabilities. There is no impacts on the amounts recognised in the financial statements in the current year or required retrospective changes in respect of the prior year.

NZ IFRS 17 Insurance contracts was adopted by the New Zealand Accounting Standards Board on 10 August 2017. It is currently effective for the reporting period beginning 1 January 2021, but this is expected to be deferred to 1 January 2022 following a tentative decision of the International Accounting Standards Board to delay the mandatory implementation date by one year.

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.

NZ IFRS 16 Leases was issued in 2016 and sets out the principles for recognition, measurement, presentation and disclosure of leases. It will replace existing accounting requirements for leases from 1 January 2019. The Branch does not have lease agreements and therefore this standard has no impact on the financial statements.

NZ IFRS 15 Revenue from Contracts with Customers introduced a single model for the recognition of revenue based on when control of goods and services transfers to a customer. It does not apply to insurance contracts and financial instruments. The Branch does not have other streams of revenue therefore this standard has no impact on the financial statements.

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. Total Revenue

	2019 \$	2018 \$
Gross written premium	8,763,726	7,845,837
Change in unearned premium reserve	(73,273)	(188,487)
Gross Earned Premium	8,690,453	7,657,350
Reinsurance commission income	539,424	391,349
Reinsurance and other recoveries	97,076	87,417
Reinsurance Income	636,500	478,766
Investment income	1,343,949	1,343,270
Other income	244	164
Sundry income	244	164
Total Revenue	10,671,146	9,479,550

(A) Premium Revenue

	2019 \$	2018 \$
Direct	8,677,623	7,607,053
Reinsurance	12,830	50,297
Total Gross Earned Premium	8,690,453	7,657,350

(B) Investment Income

	2019 \$	2018 \$
Cash and cash equivalents interest income	1,343,949	1,343,270
Total investment income	1,343,949	1,343,270

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

2. Reinsurance Expenses

	2019 \$	2018 \$
Outward reinsurance premium expense	(3,741,858)	(3,216,547)
Change in unearned reinsurance premium provision	(286,305)	74,560
	(4,028,163)	(3,141,987)

3. Operating Expenses

	2019 \$	2018 \$
Management fee	636,700	632,750
Fees paid to auditors:		
Audit – Statutory financial statements	86,800	85,100
Tax	6,000	16,148
Depreciation	-	5,869
Employee benefits	175,741	169,571
Other Expenses	209,620	227,626
Total operating expenses	1,114,861	1,137,064

4. Claims Expense

	2019 \$	2018 \$
Direct	(1,142,646)	(239,528)
	(1,142,646)	(239,528)

The net claims expense is negative this year mainly driven by a reduction in earthquake risk margin and non-RI recoveries received.

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.

2019	Current Year \$	Prior Years \$	Total \$
Gross claims incurred - undiscounted	1,477,495	(2,629,751)	(1,152,256)
Discount movement	(7,106)	16,716	9,610
Gross claims incurred - discounted	1,470,389	(2,613,035)	(1,142,646)
Reinsurance and other recoveries - undiscounted	(371,849)	275,222	(96,627)
Discount movement	2,034	(2,482)	(448)
Reinsurance and other recoveries - discounted	(369,815)	272,740	(97,076)
Net claims incurred	1,100,574	(2,340,295)	(1,239,722)

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

4. Claims Expense (Continued)

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)

Prior years gross claims incurred includes reduction in earthquake risk margin of \$0.5 million (2018: \$0.9 million) and a large non-RI recovery on an old claim.

Included in reinsurance recoveries is a gain of \$145,688 (2018: gain of \$169,462) 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 11.

5. Taxation Expense

	2019	2018
	\$	\$
Reconciliation of effective tax rate		
Profit before tax	6,272,963	5,059,966
Income tax at Branch tax rate 28% (2018: 28%)	1,756,430	1,416,790
Recognition of previously unrecognised tax losses	(1,756,430)	(1,416,790)
Total Income Tax Expense	-	-

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

6. Other Current Assets

	2019 \$	2018 \$
Accrued income	62,708	54,041
Deferred acquisition costs	103,282	241,655
Deferred reinsurance premium	654,844	941,149
Prepaid expenses	86,655	94,279
	907,489	1,331,124

(A) Deferred acquisition costs

	2019 \$	2018 \$
Deferred acquisition costs at 1 April	241,655	215,891
Acquisition costs deferred	259,430	405,825
Amortisation charged to the profit or loss	(397,805)	(380,061)
Deferred acquisition costs at 31 March	103,280	241,655

(B) Deferred Reinsurance premium

	2019 \$	2018 \$
Deferred reinsurance premium at 1 April	941,149	866,589
Reinsurance premium deferred	3,741,856	3,216,546
Reinsurance premium charged to the profit or loss	(4,028,163)	(3,141,986)
Deferred reinsurance premium at 31 March	654,842	941,149

7. Reinsurance Recoveries

	2019 \$	2018 \$
Reinsurance recoveries arising from claims	28,381,933	34,084,168
Reinsurance and other recoveries receivable at 1 April	34,084,168	35,757,439
Recoveries on claims reassessed	(272,740)	(56,854)
Recoveries received	(5,799,312)	(1,760,690)
Recoveries on new claims	369,815	144,273
Reinsurance and other recoveries receivable at 31 March	28,381,933	34,084,168

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

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.

8. Accounts Payable

	2019 \$	2018 \$
Trade creditors and accruals	243,548	270,398
Government levies	87,952	90,658
Gst payable	6,201	1,270
	337,701	362,326

9. Other Current Liabilities

	2019 \$	2018 \$
Unearned reinsurance commission	104,741	154,470
Non-resident withholding tax	186,032	175,831
	290,773	330,301

(A) Unearned Reinsurance Commission

	2019 \$	2018 \$
Unearned reinsurance commission at 1 April	154,470	153,819
Reinsurance commission deferred	489,695	392,000
Reinsurance commission recognised in profit or loss	(539,424)	(391,349)
Unearned reinsurance commission at 31 March	104,741	154,470

10. Unearned Premium Reserve

	2019 \$	2018 \$
Unearned premium liability at 1 April	2,645,796	2,457,308
Deferral of premium on contracts written at year end	2,719,069	2,645,796
Prior year premium earned	(2,645,796)	(2,457,308)
Unearned premium liability at 31 March	2,719,069	2,645,796

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

10. Unearned Premium Reserve (Continued)

Liability adequacy test

A liability adequacy test ("LAT") was performed as at 31 March 2019 and 31 March 2018. Both tests identified a surplus, the calculations for which are disclosed below:

	2019 \$	2018 \$
Gross unearned premium	2,719,069	2,645,796
Deferred reinsurance premium	(654,842)	(941,149)
Deferred acquisition expenses – net of reinsurance	1,461	(87,185)
Premium available to meet expected claims cost	2,065,688	1,617,462
Net premium liability (including 75% probability of adequacy risk margin)	1,714,057	1,511,223
LAT result	Pass	Pass

The risk margin included in the Branch's expected future cash flows for future claims is 38% (2018: 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.

11. Outstanding Claims Liability

(A) Gross outstanding claims liability

	2019 \$	2018 \$
Central estimate of outstanding claims liabilities	40,323,669	46,261,592
Discount to present value	(5,823)	(12,477)
Risk margin	2,002,812	2,627,608
Claims handling expense	89,152	104,396
	42,409,810	48,981,119

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.

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

11. Outstanding Claims Liability (Continued)

(B) Claims development table

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

Ultimate claims cost estimate	2013 & Prior	2014	2015	2016	2017	2018	2019	Total
	\$	\$	\$	\$	\$	\$	\$	\$
At end of accident year	157,557,948	1,427,174	3,219,289	3,554,776	920,486	902,590	1,227,926	1,227,926
One year later	175,772,635	1,150,409	3,011,577	3,393,984	740,329	625,580		625,580
Two years later	167,296,269	1,139,371	3,033,971	3,404,601	670,449			670,449
Three years later	175,801,380	1,138,867	3,031,520	2,037,220				2,037,220
Four years later	175,958,373	1,135,221	3,031,644					3,031,644
Five years later	175,896,386	1,135,221						1,135,221
Six years later	175,873,588							175,873,588
Total current estimate of ultimate claims costs	175,873,588	1,135,221	3,031,644	2,037,220	670,449	625,580	1,227,926	184,601,628
Cumulative payments	136,534,908	1,135,221	3,031,154	2,037,217	595,684	619,602	324,173	144,277,959
Undiscounted central estimate	39,338,680	-	490	3	74,765	5,978	903,753	40,323,669
Discount	149	-	1	-	160	15	5,498	5,823
Discounted central estimate	39,338,531	-	489	3	74,605	5,963	898,255	40,317,846
Claims handling expense	5,910	-	42	-	6,341	507	76,352	89,152
Risk margin	1,802,726	-	100	1	15,243	1,218	183,525	2,002,812
Gross outstanding claims liability	41,147,167	-	631	4	96,189	7,688	1,158,132	42,409,810
Reinsurance recoveries on outstanding claims liability	(28,047,845)	-	-	-		(2,545)	(331,543)	(28,381,933)
Net outstanding claims liability	13,099,322	-	631	4	96,189	5,143	826,589	14,027,877

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

11. Outstanding Claims Liability (Continued)

(C) Reconciliation of movement in outstanding claims

	2019 \$	2018 \$
Outstanding claims liability at 1 April	48,981,119	51,472,828
Claims reassessed	(2,613,035)	(1,320,337)
Claims paid	(5,428,663)	(2,252,181)
New claims	1,470,389	1,080,809
Outstanding claims liability at 31 March	42,409,810	48,981,119

12. Deferred Tax

At 31 March 2019 the Branch has unused tax losses of \$68,356,300 (2018: \$74,629,263) for which no deferred tax asset is recognised.

13. Contingent Liabilities

The Branch has no contingent liabilities at balance date (2018: Nil).

14. Commitments

The Branch has no commitments for expenditure at balance date (2018: Nil).

15. Related Party Information

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

Transactions with Head Office:	2019 \$	2018 \$
Reinsurance premiums	870,170	175,778
Reinsurance recoveries	(29,532)	(14,081)
Reinsurance commission earned	(194,367)	(33,052)
Other expense paid/ recharged	(41,515)	(8,187)
	604,756	120,458

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

15. 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.

	2019 \$	2018 \$
Outstanding balance with Head Office:		
Due to related parties	3,460,931	2,856,175

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

	2019 \$	2018 \$
Transactions with Aioi:		
Management Fees Paid	36,700	32,750

Outstanding balance with Aioi:

Other current assets	86,655	94,277
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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:

	2019 \$	2018 \$
Short-term employee benefits	166,756	162,143

16. Credit Rating

Mitsui Sumitomo Insurance Company Limited has received an A+ (2018: 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
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

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

	2019 \$	2018 \$
Net profit for the period	6,272,963	5,059,966
Depreciation	-	5,869
Movement in premium receivables	(241,495)	(40,048)
Movement in tax receivable	4,285	-
Movement in reinsurance receivables	(5,720,178)	(1,653,133)
Movement in reinsurance recoveries	5,702,234	1,673,271
Movement in other current assets	423,630	(57,275)
Movement in accounts payable	(24,625)	15,676
Movement in reinsurance payable	(636,686)	75,636
Movement in other current liabilities	(39,528)	18,962
Movement in outstanding claims liability	(6,571,308)	(2,491,709)
Movement in unearned premium reserve	73,273	188,488
Movement in amounts due to related parties	604,756	120,458
Net cash flow from operating activities	(152,679)	2,916,161

18. 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 2018 Annual Report and the 31 March 2019 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.

	2019 NZD in millions (Unaudited)	2018 NZD in millions (Unaudited)
Actual Solvency Capital [A]	44,160	42,797
Minimum Solvency Capital [B]	12,211	12,207
Solvency Margin [A-B]	31,949	30,590
Solvency Ratio [A/B*2]*100	723.3%	701.2%

Solvency ratio under the Reserve Bank of New Zealand method is 362% (2018:351%).

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

19. 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 \$46,483,647 and \$15,077,884 respectively (2018: \$46,637,060 and \$15,077,150 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 \$9,755,323 (2018: \$9,752,483).

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	
2019	\$	\$	\$	\$	\$
Cash and cash equivalents	61,561,531	-	-	-	61,561,531
Premium receivables	-	-	-	1,653,703	1,653,703
Other current assets – accrued income	62,708	-	-	-	62,708
Reinsurance receivable	3,741,377	10,743,719	-	72,789	14,557,885
Reinsurance recoveries	7,288,619	20,951,512	-	141,802	28,381,933
Total	72,654,235	31,695,231	-	1,868,294	106,217,760

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

19. Financial Risk Management (Continued)

	Credit Rating				
	AA	A	BBB	Not Rated	Total
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

As at 31 March 2019 there are no assets that are past due or impaired (2018: 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.

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

19. 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
2019	\$	\$	\$	\$	\$
Financial Liabilities					
Reinsurance Payable	274,216	-	-	-	274,216
Due to Related Parties	-	-	-	3,460,931	3,460,931
Trade Creditors and accruals	243,548	-	-	-	243,548
Total	517,764	-	-	3,460,931	3,978,695

	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

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

19. 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 2019, as cumulative claims payments have now exceeded the reinsurance recovery threshold \$147,049 (2018: \$87,562).

(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
2019	\$	\$	\$
Financial Assets			
Cash and Cash Equivalents	61,561,531	(615,615)	615,615

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

19. Financial risk management (Continued)

Interest Rate Risk

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

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
2019	\$	\$	\$
Financial Assets			
Cash and Cash Equivalents	61,561,531	61,561,531	-
Other Current Assets – Accrued Income	62,708	62,708	-
Total	61,624,239	61,624,239	-

	Total	Fair Value through Profit and Loss	Financial Liabilities at Amortised Cost
	\$	\$	\$
Financial Liabilities			
Accounts Payable - Trade	243,548	-	243,548
Creditors and Accruals			
Reinsurance Payable	274,215	-	274,215
Due to Related Parties	3,460,931	-	3,460,931
Total	3,978,694	-	3,978,694

MITSUI SUMITOMO INSURANCE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

19. Financial risk management (Continued)

	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 Creditors and Accruals	270,398	-	270,398
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
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For the year ended 31 March 2019

19. 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.

As at 31 March 2019, the branch holds no investments at fair value through profit and loss. The branch holds term deposits which are disclosed as cash and cash equivalents with original maturities of 90 days or less.

20. 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
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

20. Insurance Risk (Continued)

(A) Concentration of insurance risk

The Branch's exposure is throughout the 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

21. 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, excluding Earthquake claims) is approximately 4 months (2018: 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 1.6% per annum (2018:2.1%). Canterbury earthquake claims have not been discounted for the time value of money due to the uncertainties in settlement.

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

21. 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 19(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 16.7% (2018: 21.6%). This is largely driven by the risk margin assumptions relating to the Canterbury earthquake claims.

The non-earthquake risk margins for both outstanding claims and liability adequacy testing have been reviewed as part of the 2019 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% (2018: 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	2019	2018
Discount Rate %	+1%	(2,256)	(4,620)
	-1%	2,292	4,705
IBNR Tail Strengthening	+1% p.a. for 4 Quarters	66,047	63,686
Risk Margin %	+1%	118,263	122,847
	-1%	(118,263)	(122,847)

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

21. 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 2019.

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 2019 are outlined in Note 21 (A) - (E) above.

The actuary has no financial interest in the Branch.

22. Events Occurring After Reporting Date

There are no matters past balance date that have significantly affected, or may significantly affect, the results of the Branch's operations for the year ended 31 March 2019 or the Branch's financial position as at 31 March 2019.

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 32:

- i. present fairly in all material respects the Branch's financial position as at 31 March 2019 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 2019;
- 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 professional 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.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.



The key audit matter

How the matter was addressed in our audit

Valuation of Outstanding Claims Liability - \$42.4m

Refer to Note 11 of the financial statements.

The valuation of the gross outstanding claims liability involved a high level of judgement specifically:

- judgement is required by the Branch to consider the central estimate of the gross outstanding claims liability which is a significant estimate as the eventual outcomes of incurred but unsettled claims at the balance sheet date are inherently uncertain;
- there is a lower level of information available and greater level of uncertainty inherent in assessing estimation of claims that have been incurred by the balance sheet date but have not yet been reported to the Branch;
- claims estimation requires use of an actuarial modelling process which involves subjective actuarial methodologies, judgements and assumptions about future events and developments, both within and external to the Branch, and for which small changes can have significant implications to the quantification;
- consideration of historical claims experience to determine current estimates, including the greater variability between the original estimation and the ultimate settlement of claims where there is a long time delay. Examples include claims arising from the Canterbury earthquakes of 2010 and 2011; and
- outstanding claims liability includes statistically determined risk margins determined by the Appointed Actuary to make allowance for the inherent uncertainty in estimating ultimate claim settlements. The risk margins are included to achieve a specified

We involved our actuarial specialists and performed audit procedures, which included:

- Obtaining and reviewing the Insurance Liability Valuation Report ("ILVR") prepared by the Branch's Appointed Actuary;
- Assessing the competence, capabilities and objectivity of the Branch's Appointed Actuary;
- Consideration of the appropriateness of the valuation methodologies, for both earthquake and non-earthquake claims, in light of historical claims experience and, specifically adverse or favourable reserving movements relating to prior period claims;
- Assessing and challenging the appropriateness of adopted risk margins through discussion with the Appointed Actuary, consideration of the Branch's historical claims experience and industry knowledge;
- For material individual outstanding claims, obtaining and inspecting underlying claims files to assess the reasonableness of the value recorded in the financial statements versus the latest available information held on the claims file;
- Obtaining an external legal confirmation in respect of material outstanding claims liabilities;
- Obtaining and reviewing Reserving Committee minutes in relation to the year ended 31 March 2019; and
- Reconciling actuarial financial statement disclosures back to the ILVR prepared by the Appointed Actuary.

The key audit matter

How the matter was addressed in our audit

Probability of Adequacy for the total outstanding claims reserves.

Valuation of reinsurance recoveries on outstanding claims - \$28.4m

Refer to Note 7 of the financial statements.

Reinsurance recoveries represents the Branch's estimate of reinsurers' share of the costs to settle all claims that have occurred up to and including 31 March 2019. These claims may either be known to the Branch (reported), or unknown (not yet reported).

The Branch has reinsurance cover in the form of a regional Excess of Loss contract (treaty reinsurance) as well as facultative reinsurance on certain individual risks. The regional Excess of Loss contract is denominated in Yen, meaning that the Branch is subject to foreign exchange exposure.

Reinsurance and other recoveries on outstanding claims is a function of outstanding claims liabilities and is therefore subject to the same valuation uncertainties as outstanding claims liabilities.

Valuation of reinsurance and other recoveries on outstanding claims is significant to our audit due to its size and the high level of judgement applied by the Branch in determining the valuation of the outstanding claims liability on which the estimate of reinsurance recoveries is based.

Our audit procedures included:

- Recalculating material reinsurance recoveries balances based on the underlying reinsurance agreements, Yen/NZD exchange rate movements during the period, and the valuation of outstanding claims as calculated by the Appointed Actuary;
- Assessing the recoverability of reinsurance recoveries by considering credit worthiness, based on external sources of information such as Standard and Poor's credit ratings, payment history, and consideration of information for indicators of disputes; and
- Reconciling actuarial financial statement disclosures back to the ILVR prepared by the Appointed Actuary.



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



Auditor's responsibilities for the audit of the financial statements

Our objective is:

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

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

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

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

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

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



KPMG
Auckland

15 July 2019

4 July 2019

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 2019

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 2019, 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
Society of Actuaries

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Level 5, 79 Queen Street
Auckland 1010

4 July 2019

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 2019****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 2019 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 2019 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 2019 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
Society of Actuaries**



Matthew Clere

**Associate of the New Zealand
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mitsui sumitomo insurance company, limited

Financial Statements

For the years ended March 31, 2018 and March 31, 2019

(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, Senior Executive Officer
Mitsui Sumitomo Insurance Company, Ltd.



Independent Auditor's Report

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

We have audited the accompanying financial statements of Mitsui Sumitomo Insurance Company, Limited, which comprise the balance sheets as of March 31, 2018 and 2019, 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 judgment, 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, 2018 and 2019, and its financial performance for the years then ended in accordance with Japanese GAAP.

KPMG AZSA LLC

June 24, 2019
Tokyo, Japan

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets

As of March 31, 2018 and March 31, 2019

		2018	2019
		(in ¥ million)	
	<u>Assets</u>		
Assets			
Cash, deposits and savings:	¥	421,714	451,820
Cash on hand		76	57
Deposits in banks		421,638	451,762
Receivables under resale agreements		6,999	6,999
Monetary claims bought		13,598	13,650
Money trusts		3,728	3,543
Securities:		5,635,635	5,399,897
Government bonds		1,192,826	979,885
Municipal bonds		88,038	87,459
Corporate bonds		524,990	555,690
Stock		1,937,182	1,728,866
Foreign securities		1,854,804	2,003,496
Other securities		37,792	44,498
Loans:		393,362	396,292
Policy loans		7,133	6,515
General loans		386,228	389,776
Tangible fixed assets:		205,648	207,392
Land		76,499	78,087
Buildings		117,734	115,698
Construction in progress		569	335
Other tangible fixed assets		10,846	13,271

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2018	2019
	(in ¥ million)	
Intangible fixed assets:	¥ 45,317	73,972
Software	13,726	14,527
Other intangible fixed assets	31,591	59,445
Other assets:	328,137	393,734
Premiums receivable	4,122	4,311
Due from agencies	120,062	122,339
Co-insurance accounts receivable	7,407	12,721
Reinsurance accounts receivable	53,454	64,100
Foreign reinsurance accounts receivable	26,634	94,274
Agency business accounts receivable	534	607
Other receivables	41,300	35,260
Accrued income	6,059	5,632
Guarantee deposits	10,293	10,323
Deposits with Japan Earthquake Reinsurance Co., Ltd.	6,457	4,138
Suspense payments	35,327	36,911
Initial margins of future markets	316	701
Derivative financial instruments	15,052	1,347
Cash collateral pledged under derivative transactions	326	393
Other assets	784	670
Customers' liabilities under acceptances and guarantees	47,243	33,123
Bad debt reserve	<u>(3,169)</u>	<u>(3,282)</u>
Total assets	¥ <u>7,098,216</u>	<u>6,977,145</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2018	2019
	(in ¥ million)	
<u>Liabilities and Net Assets</u>		
Liabilities		
Policy liabilities:	¥ 3,893,910	3,798,043
Outstanding claims	641,711	644,153
Underwriting reserves	3,252,198	3,153,890
Bonds issued	386,191	487,093
Other liabilities:	507,840	502,358
Co-insurance accounts payable	11,571	11,656
Reinsurance accounts payable	55,662	63,195
Foreign reinsurance accounts payable	22,483	29,004
Agency business accounts payable	12	16
Borrowings	196,767	196,767
Income taxes payable	48,653	18,683
Deposits received	61,793	64,182
Unearned income	34	25
Other payables	44,734	46,990
Suspense receipts	22,259	23,220
Derivative financial instruments	2,557	1,787
Cash collateral received under derivative transactions	34,218	40,357
Lease obligations	1,372	1,294
Asset retirement obligations	3,862	3,881
Other liabilities	1,858	1,295
Reserve for pension and retirement benefits	139,476	134,438
Reserve for retirement benefits for officers	516	403
Accrued bonuses for employees	10,145	10,447
Reserve for reorganization by function	2,261	906
Reserves under the special laws:	71,813	76,003
Reserve for price fluctuation	71,813	76,003
Deferred tax liabilities	161,817	101,693
Acceptances and guarantees	<u>47,243</u>	<u>33,123</u>
Total liabilities	5,221,215	5,144,511

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2018	2019
	(in ¥ million)	
Net Assets		
Shareholder's equity:		
Common stock	¥ 139,595	139,595
Capital surplus:	93,107	93,107
Additional paid-in capital	93,107	93,107
Retained earnings:	589,634	685,439
Legal earned reserve	46,487	46,487
Other retained earnings:	543,146	638,951
Tax-exempted reserve for accelerated depreciation	15,503	15,837
Retained earnings brought forward	<u>527,643</u>	<u>623,113</u>
Total shareholder's equity	<u>822,337</u>	<u>918,142</u>
Valuation and translation adjustments:		
Net unrealized gains/(losses) on securities	1,022,583	885,036
Net deferred gains/(losses) on hedges	<u>32,079</u>	<u>29,454</u>
Total valuation and translation adjustments	<u>1,054,662</u>	<u>914,491</u>
Total net assets	<u>1,877,000</u>	<u>1,832,634</u>
Total liabilities and net assets	¥ <u>7,098,216</u>	<u>6,977,145</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Income

For the years ended March 31, 2018 and March 31, 2019

	2018	2019
	(in ¥ million)	
Ordinary income:	¥ 1,859,915	1,908,617
Underwriting income:	1,654,780	1,696,441
Net premiums written	1,494,362	1,509,617
Deposit premiums from policyholders	60,092	55,858
Investment income on deposit premiums from policyholders	33,443	32,235
Reversal of outstanding claims	1,734	-
Reversal of underwriting reserves	65,042	98,308
Foreign exchange gains	-	348
Other underwriting income	104	73
Investment income:	199,914	206,852
Interest and dividends income	105,107	113,912
Investment gains on money trusts	239	-
Gains on sales of securities	122,213	121,459
Gains on redemption of securities	592	256
Gains on derivative transactions	4,564	2,343
Foreign exchange gains	-	625
Other investment income	640	491
Transfer of investment income on deposit premiums from policyholders	(33,443)	(32,235)
Other ordinary income	5,220	5,322
Ordinary expenses:	1,597,363	1,682,140
Underwriting expenses:	1,357,678	1,436,790
Net claims paid	836,385	910,965

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Income (Continued)

	2018	2019
	(in ¥ million)	
Loss adjustment expenses	¥ 87,345	89,662
Commissions and collection expenses	259,174	265,429
Maturity refunds to policyholders	173,672	167,736
Dividends to policyholders	244	118
Provision for outstanding claims	-	2,442
Foreign exchange losses	470	-
Other underwriting expenses	385	436
Investment expenses:	9,391	12,622
Investment losses on money trusts	-	171
Losses on sales of securities	3,360	5,375
Impairment losses on securities	1,031	4,052
Losses on redemption of securities	237	44
Foreign exchange losses	1,869	-
Other investment expenses	2,892	2,978
Operating expenses and general and administrative expenses	222,577	223,294
Other ordinary expenses:	7,714	9,434
Interest expense	6,721	7,734
Provision for bad debt reserve	-	172
Losses on bad debts	1	1
Other ordinary expenses	<u>991</u>	<u>1,526</u>
Ordinary profit/(loss)	<u>262,552</u>	<u>226,476</u>
Extraordinary income:	7,207	2,982
Gains on sales of fixed assets	7,207	2,982
Extraordinary losses:	5,636	6,095
Losses on sales of fixed assets	763	1,265
Impairment losses on fixed assets	860	639
Provision for reserves under the special laws:	4,011	4,190
Provision for reserve for price fluctuation	<u>4,011</u>	<u>4,190</u>
Income/(loss) before income taxes	<u>264,123</u>	<u>223,363</u>
Income taxes-current	73,452	58,143
Income taxes-deferred	<u>(7,566)</u>	<u>(5,882)</u>
Total income taxes	<u>65,885</u>	<u>52,260</u>
Net income/(loss)	¥ <u>198,237</u>	<u>171,102</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Changes in Net Assets

For the years ended March 31, 2018 and March 31, 2019

For the year ended March 31, 2018

(in ¥ million)

(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 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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Changes in Net Assets(Continued)

For the year ended March 31, 2019

(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	15,503	527,643	822,337
Changes for the year						
Provision for tax-exempted reserve for accelerated depreciation				626	(626)	-
Reversal of tax-exempted reserve for accelerated depreciation				(291)	291	-
Dividends paid					(75,297)	(75,297)
Net income/(loss)					171,102	171,102
Net changes of items other than shareholder's equity						
Total changes for the year	-	-	-	334	95,470	95,804
Ending balance	¥ 139,595	93,107	46,487	15,837	623,113	918,142

	Valuation and translation adjustments		Total net assets
	Net unrealized gains/(losses) on securities	Net deferred gains/(losses) on hedges	
Beginning balance	¥ 1,022,583	32,079	1,877,000
Changes for the year			
Provision for tax-exempted reserve for accelerated depreciation			-
Reversal of tax-exempted reserve for accelerated depreciation			-
Dividends paid			(75,297)
Net income/(loss)			171,102
Net changes of items other than shareholder's equity	(137,546)	(2,625)	(140,171)
Total changes for the year	(137,546)	(2,625)	(44,366)
Ending balance	¥ 885,036	29,454	1,832,634

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements

For the years ended March 31, 2018 and March 31, 2019

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 fair value. Money trusts specifically managed for the Company, other than those held for trading purposes or 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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

(4) Depreciation methods of intangible fixed assets

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

(5) Translation of foreign currency assets and liabilities

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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

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 estimated amounts to be paid at the year end to provide for future retirement benefits (including pension).

(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 Japanese 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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

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 fair value hedge method.

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

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

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

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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Significant Items for Presenting Financial Statements (Continued)

(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, 2018 and March 31, 2019

1. The amounts of securities loaned under securities lending agreements are as follows:
(in ¥ million)

March 31, 2018	March 31, 2019
207,822	206,394

(Note) The amounts in the above table are included in Government bonds, Stock and Foreign securities under Securities as of March 31, 2018 and March 31, 2019.

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, 2018	March 31, 2019
Loans to borrowers in bankruptcy	-	-
Overdue loans	103	22
Loans overdue for 3 months or more	279	206
Restructured loans	460	402
Total	843	631

(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, 2018	March 31, 2019
Accumulated depreciation	273,676	277,794
Accelerated depreciation	14,242	13,985

(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, 2018 and March 31, 2019 were ¥14,242 million and ¥13,985 million, respectively.

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

	(in ¥ million)	
	March 31, 2018	March 31, 2019
Total amounts receivable	8,748	10,629
Total amounts payable	22,490	21,869

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

	(in ¥ million)	
	March 31, 2018	March 31, 2019
Deferred tax assets:		
Underwriting reserves	142,760	142,738
Reserve for pension and retirement benefits	38,914	37,508
Reserve for price fluctuation	20,035	21,205
Outstanding claims	18,940	21,023
Software	14,573	16,824
Securities	13,221	12,763
Others	21,599	20,003
Total gross deferred tax assets	270,045	272,066
Less valuation allowance	(12,263)	(11,963)
Total net deferred tax assets	257,782	260,103
Deferred tax liabilities:		
Net unrealized gains on securities	(395,701)	(342,476)
Others	(23,898)	(19,320)
Total gross deferred tax liabilities	(419,599)	(361,796)
Total deferred tax liabilities net of deferred tax assets	(161,817)	(101,693)

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

6. Guarantees and similar arrangements for subsidiaries and associates

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.

March 31, 2019

(Guarantees)

The Company provides a guarantee of ¥54,422 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 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 ¥162,718 million as of March 31, 2019.

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

	(in ¥ million)	
	March 31, 2018	March 31, 2019
Stock	1,294,130	1,393,572
Other investment	24,537	24,195

8. The amounts of pledged assets are as follows:

	(in ¥ million)	
	March 31, 2018	March 31, 2019
Securities	76,136	84,203

(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, 2018	March 31, 2019
Gross outstanding claims (except for (b))	681,395	775,943
Reinsurance recoverable on unpaid losses	90,253	179,092
Net (a)	591,142	596,850
Outstanding claims related to earthquakes and compulsory automobile liability insurance (b)	50,569	47,303
Total (a) + (b)	641,711	644,153

(2) Details of Underwriting reserves are as follows:

	(in ¥ million)	
	March 31, 2018	March 31, 2019
Gross ordinary underwriting reserves	1,314,524	1,324,642
Reinsurance recoverable on underwriting reserves	79,715	81,727
Net (a)	1,234,808	1,242,914
Gross refund reserves	1,208,605	1,118,380
Reinsurance recoverable on refund reserves	1	-
Net (b)	1,208,603	1,118,380
Other underwriting reserves (c)	808,786	792,594
Total (a) + (b) + (c)	3,252,198	3,153,890

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

	March 31, 2018	March 31, 2019
Net assets per share (in ¥)	1,336.51	1,304.92
Amounts deducted from net assets (in ¥ million)	-	-
Outstanding common stock (in thousands of shares)	1,404,402	1,404,402

11. Information on significant subsequent events is presented in “Consolidated Financial Statements – Notes to Consolidated Balance Sheets 11. Significant subsequent events”.

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 ¥130,771 million and ¥115,078 million, respectively, in a negative liability position as of March 31, 2018 and March 31, 2019. 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, 2018	March 31, 2019
3,000	4,593

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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income

For the years ended March 31, 2018 and March 31, 2019

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

	(in ¥ million)	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Income	50,664	60,769
Expenses	56,887	49,933

2.

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

	(in ¥ million)	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Gross premiums written	1,835,059	1,881,150
Less reinsurance premiums ceded	340,696	371,532
Net	1,494,362	1,509,617

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

	(in ¥ million)	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Gross claims paid	1,045,950	1,331,319
Less claim recoveries from reinsurance ceded	209,564	420,353
Net	836,385	910,965

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

	(in ¥ million)	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Commissions and collection expenses paid	293,396	301,085
Less reinsurance commissions received	34,221	35,656
Net	259,174	265,429

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

	(in ¥ million)	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Gross provision for/(reversal of) outstanding claims (except for (b))	(20,027)	94,547
Less reinsurance recoverable on unpaid losses	(19,769)	88,838
Net (a)	(258)	5,708
Provision for/(reversal of) outstanding claims related to earthquakes and compulsory automobile liability insurance (b)	(1,476)	(3,266)
Total (a) + (b)	(1,734)	2,442

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, 2018	For the year ended March 31, 2019
Gross provision for/(reversal of) ordinary underwriting reserves	5,414	10,117
Less reinsurance recoverable on underwriting reserves	2,909	2,012
Net (a)	2,505	8,105
Provision for/(reversal of) refund reserves	(92,962)	(90,224)
Less reinsurance recoverable on refund reserves	(2)	(1)
Net (b)	(92,959)	(90,222)
Provision for/(reversal of) other underwriting reserves (c)	25,411	(16,191)
Total (a) + (b) + (c)	(65,042)	(98,308)

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

	(in ¥ million)	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Interest on deposits and savings	740	944
Interest on receivables under resale agreements	0	0
Interest on monetary claims bought	353	270
Interest and dividends income on securities	93,468	102,711
Interest on loans	4,045	3,421
Rental income on properties	6,477	6,512
Other interest income	21	51
Total	105,107	113,912

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, 2018	For the year ended March 31, 2019
4	(356)

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

(in ¥ million)	
For the year ended March 31, 2018	For the year ended March 31, 2019
(6,358)	3,672

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, 2018	For the year ended March 31, 2019
Net income/(loss) per share (in ¥)	141.15	121.83
Net income/(loss) attributable to common stock (in ¥ million)	198,237	171,102
Average outstanding common shares during the year (in thousands of shares)	1,404,402	1,404,402

(Notes) Since there was no potential dilution for the years ended March 31, 2018 and 2019, diluted net income/(loss) per share is not presented.

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

For the year ended March 31, 2018

The statutory income tax rate is 28.2% and the effective income tax rate after applying tax effect accounting is 24.9%. The difference mainly consists of the tax-exempted dividend income.

For the year ended March 31, 2019

The statutory income tax rate is 27.9% and the effective income tax rate after applying tax effect accounting is 23.4%. The difference mainly consists of the tax-exempted dividend income.

6. “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, 2018 and March 31, 2019

(With Independent Auditor's Report Thereon)

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

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



Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Mitsui Sumitomo Insurance Company, Limited and its consolidated subsidiaries, which comprise the consolidated balance sheets as of March 31, 2018 and 2019, 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 judgment, 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, 2018 and 2019, and their financial performance and cash flows for the years then ended in accordance with Japanese GAAP.

KPMG AZSA LLC

June 24, 2019
Tokyo, Japan

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

As of March 31, 2018 and March 31, 2019

	2018	2019
	(in ¥ million)	
<u>Assets</u>		
Assets		
Cash, deposits and savings	¥ 896,065	872,285
Receivables under resale agreements	6,999	6,999
Monetary claims bought	100,134	54,241
Money trusts	3,828	3,636
Securities	5,567,171	5,329,929
Loans	396,179	398,273
Tangible fixed assets:	230,923	229,539
Land	86,759	87,433
Buildings	125,247	122,227
Construction in progress	895	377
Other tangible fixed assets	18,020	19,500
Intangible fixed assets:	487,593	461,971
Software	29,910	30,210
Goodwill	209,658	185,491
Other intangible fixed assets	248,023	246,270
Other assets	849,013	949,857
Deferred tax assets	23,500	19,066
Customers' liabilities under acceptances and guarantees	45,000	31,000
Bad debt reserve	(8,331)	(7,777)
Total assets	¥ <u>8,598,078</u>	<u>8,349,024</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets (Continued)

	2018	2019
	(in ¥ million)	
<u>Liabilities and Net Assets</u>		
Liabilities		
Policy liabilities:	¥ 5,199,108	5,070,683
Outstanding claims	1,531,730	1,518,790
Underwriting reserves	3,667,377	3,551,892
Bonds issued	386,191	487,093
Other liabilities	735,149	753,300
Liabilities for pension and retirement benefits	157,468	145,550
Reserve for retirement benefits for officers	516	403
Accrued bonuses for employees	18,975	18,891
Reserve for reorganization by function	2,261	906
Reserves under the special laws:	71,813	76,003
Reserve for price fluctuation	71,813	76,003
Deferred tax liabilities	196,891	133,542
Acceptances and guarantees	45,000	31,000
Total liabilities	<u>6,813,373</u>	<u>6,717,375</u>
Net Assets		
Shareholders' equity:		
Common stock	139,595	139,595
Capital surplus	86,104	85,008
Retained earnings	549,750	602,225
Total shareholders' equity	<u>775,450</u>	<u>826,829</u>
Accumulated other comprehensive income/(loss):		
Net unrealized gains/(losses) on securities	1,034,215	886,477
Net deferred gains/(losses) on hedges	19,835	18,492
Foreign currency translation adjustments	(64,338)	(124,722)
Accumulated actuarial gains/(losses) on retirement benefits	(10,844)	(5,161)
Total accumulated other comprehensive income/(loss)	<u>978,867</u>	<u>775,086</u>
Non-controlling interests	<u>30,387</u>	<u>29,733</u>
Total net assets	<u>1,784,704</u>	<u>1,631,649</u>
Total liabilities and net assets	¥ <u>8,598,078</u>	<u>8,349,024</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, 2018 and March 31, 2019

	2018	2019
	(in ¥ million)	
<u>Ordinary income and expenses</u>		
Ordinary income:	¥ 2,531,482	2,592,607
Underwriting income:	2,287,040	2,352,555
Net premiums written	2,110,436	2,160,050
Deposit premiums from policyholders	60,092	55,858
Investment income on deposit premiums from policyholders	33,443	32,235
Life insurance premiums	13,320	12,285
Reversal of underwriting reserves	57,104	91,956
Other underwriting income	12,642	169
Investment income:	231,734	227,011
Interest and dividends income	107,881	113,087
Investment gains on money trusts	239	-
Investment gains on trading securities	29,424	17,237
Gains on sales of securities	125,909	126,373
Gains on redemption of securities	629	256
Other investment income	1,093	2,292
Transfer of investment income on deposit premiums from policyholders	(33,443)	(32,235)
Other ordinary income:	12,707	13,040
Gains on equity method investments	3,017	2,451
Other ordinary income	9,689	10,588
Ordinary expenses:	2,402,447	2,408,654
Underwriting expenses:	1,993,749	2,003,202
Net claims paid	1,210,889	1,297,017
Loss adjustment expenses	104,749	106,293
Commissions and collection expenses	381,848	394,698
Maturity refunds to policyholders	173,672	167,736
Dividends to policyholders	244	118
Life insurance claims	71	109
Provision for outstanding claims	121,324	36,181
Other underwriting expenses	948	1,047

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income (Continued)

	2018	2019
	(in ¥ million)	
Investment expenses:	¥ 23,623	19,351
Investment losses on money trusts	-	171
Losses on sales of securities	4,447	7,209
Impairment losses on securities	1,164	4,763
Losses on redemption of securities	237	47
Losses on derivative transactions	9,131	3,234
Other investment expenses	8,642	3,924
Operating expenses and general and administrative expenses	375,473	374,224
Other ordinary expenses:	9,600	11,875
Interest expense	6,732	8,858
Provision for bad debt reserve	-	660
Losses on bad debts	90	93
Other ordinary expenses	2,778	2,264
Ordinary profit/(loss)	<u>129,034</u>	<u>183,952</u>
<u>Extraordinary income and losses</u>		
Extraordinary income:	7,674	12,331
Gains on sales of fixed assets	7,674	12,331
Extraordinary losses:	6,819	8,221
Losses on sales of fixed assets	783	1,274
Impairment losses on fixed assets	2,024	639
Provision for reserves under the special laws:	4,011	4,190
Provision for reserve for price fluctuation	4,011	4,190
Other extraordinary losses	-	2,116
Income/(loss) before income taxes	<u>129,889</u>	<u>188,062</u>
Income taxes – current	82,707	62,432
Income taxes - deferred	<u>(30,187)</u>	<u>(4,300)</u>
Total income taxes	52,520	58,132
Net income/(loss)	<u>77,369</u>	<u>129,929</u>
Net income/(loss) attributable to non-controlling interests	<u>2,425</u>	<u>2,156</u>
Net income/(loss) attributable to owners of the parent	<u>¥ 74,943</u>	<u>127,772</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2018 and March 31, 2019

		2018	2019
		(in ¥ million)	
Net income/(loss)	¥	77,369	129,929
Other comprehensive income/(loss):			
Net unrealized gains/(losses) on securities		94,111	(145,725)
Net deferred gains/(losses) on hedges		(3,520)	(1,707)
Foreign currency translation adjustments		21,867	(56,369)
Actuarial gains/(losses) on retirement benefits		10,331	5,685
Share of other comprehensive income/(loss) of equity method investments		<u>500</u>	<u>(7,359)</u>
Total other comprehensive income/(loss)		<u>123,290</u>	<u>(205,477)</u>
Total comprehensive income/(loss)	¥	<u>200,659</u>	<u>(75,547)</u>
Allocation:			
Comprehensive income/(loss) attributable to owners of the parent	¥	196,756	(76,008)
Comprehensive income/(loss) attributable to non-controlling interests		3,903	460

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, 2018 and March 31, 2019

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 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 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 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 Changes in Net Assets (Continued)

For the year ended March 31, 2019

(in ¥ million)

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Total shareholders' equity
Beginning balance	¥ 139,595	86,104	549,750	775,450
Changes for the year:				
Dividends paid			(75,297)	(75,297)
Net income/(loss) attributable to owners of the parent			127,772	127,772
Changes in equity resulting from transactions with non-controlling interests		(1,096)		(1,096)
Adjustments of retained earnings pertaining to the U.S. tax reform				-
Net changes of items other than shareholders' equity				
Total changes for the year	-	(1,096)	52,475	51,379
Ending balance	¥ 139,595	85,008	602,225	826,829

	Accumulated other comprehensive income/(loss)					Non-controlling interests	Total net assets
	Net unrealized gains/(losses) on securities	Net deferred gains/(losses) on hedges	Foreign currency translation adjustments	Accumulated actuarial gains/(losses) on retirement benefits	Total accumulated other comprehensive income/(loss)		
Beginning balance	¥ 1,034,215	19,835	(64,338)	(10,844)	978,867	30,387	1,784,704
Changes for the year:							
Dividends paid							(75,297)
Net income/(loss) attributable to owners of the parent							127,772
Changes in equity resulting from transactions with non-controlling interests							(1,096)
Adjustments of retained earnings pertaining to the U.S. tax reform							-
Net changes of items other than shareholders' equity	(147,737)	(1,342)	(60,383)	5,683	(203,781)	(653)	(204,434)
Total changes for the year	(147,737)	(1,342)	(60,383)	5,683	(203,781)	(653)	(153,055)
Ending balance	¥ 886,477	18,492	(124,722)	(5,161)	775,086	29,733	1,631,649

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, 2018 and March 31, 2019

	2018	2019
	(in ¥ million)	
I. Cash flows from operating activities:		
Income/(loss) before income taxes	¥ 129,889	188,062
Adjustments for:		
Depreciation	40,758	39,649
Impairment losses on fixed assets	2,024	639
Amortization of goodwill	9,341	13,002
Increase/(decrease) in outstanding claims	101,633	43,527
Increase/(decrease) in underwriting reserves	(61,401)	(92,419)
Increase/(decrease) in bad debt reserve	(924)	(199)
Increase/(decrease) in reserve for retirement benefits for officers	(95)	(113)
Increase/(decrease) in accrued bonuses for employees	(1,489)	469
Increase/(decrease) in reserve for reorganization by function	(754)	(1,354)
Increase/(decrease) in liabilities for pension and retirement benefits	3,482	(4,694)
Increase/(decrease) in reserve for price fluctuation	4,011	4,190
Interest and dividends income	(107,881)	(113,087)
Losses/(gains) on securities	(150,114)	(131,845)
Losses/(gains) on derivative transactions	9,131	3,234
Interest expense	6,732	8,858
Foreign exchange losses/(gains)	(917)	595
Losses/(gains) on disposal of tangible fixed assets	(7,020)	(11,262)
Losses/(gains) on equity method investments	(3,017)	(2,451)
Decrease/(increase) in other assets	40,673	(129,973)
Increase/(decrease) in other liabilities	(8,837)	40,227
Other, net	(10,980)	(2,741)
Subtotal	(5,755)	(147,684)
Interest and dividends received	116,849	133,065
Interest paid	(6,297)	(8,772)
Income taxes refunded/(paid)	(78,401)	(91,129)
Net cash provided by/(used in) operating activities (a)	26,395	(114,520)

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

	2018	2019
	(in ¥ million)	
II. Cash flows from investing activities:		
Net decrease/(increase) in deposits and savings	¥ (14,231)	36,649
Purchase of monetary claims bought	(2,601)	(9,027)
Proceeds from sales and redemption of monetary claims bought	37,842	49,750
Purchase of money trusts	(15)	(3,741)
Proceeds from sales of money trusts	7	3,727
Purchase of securities	(2,033,846)	(2,627,822)
Proceeds from sales and redemption of securities	1,960,157	2,725,295
Investment in loans	(59,407)	(73,403)
Collection of loans	78,244	71,155
Other, net	<u>15,586</u>	<u>8,789</u>
Subtotal (b)	<u>(18,263)</u>	<u>181,372</u>
(a + b)	<u>8,131</u>	<u>66,851</u>
Acquisition of tangible fixed assets	(8,598)	(14,610)
Proceeds from sales of tangible fixed assets	10,040	14,195
Acquisition of intangible fixed assets	(20,860)	(42,085)
Acquisition of shares of subsidiaries resulting in changes in scope of consolidation	(84,024)	-
Other, net	<u>(2,336)</u>	<u>(2,368)</u>
Net cash provided by/(used in) investing activities	<u>(124,042)</u>	<u>136,503</u>
III. Cash flows from financing activities:		
Proceeds from borrowings	55,027	26,452
Repayments of borrowings	(30,342)	(45,386)
Issuance of bonds	129,133	99,527
Dividends paid to shareholders	(52,577)	(75,297)
Dividends paid to non-controlling interests	(1,048)	(1,066)
Purchase of shares of subsidiaries not resulting in changes in scope of consolidation	-	(1,615)
Other, net	<u>(796)</u>	<u>(850)</u>
Net cash provided by/(used in) financing activities	<u>99,394</u>	<u>1,763</u>
IV. Effect of exchange rate changes on cash and cash equivalents	<u>6,879</u>	<u>(11,806)</u>
V. Net increase/(decrease) in cash and cash equivalents	<u>8,626</u>	<u>11,940</u>
VI. Cash and cash equivalents at beginning of year	<u>707,167</u>	<u>715,793</u>
VII. Cash and cash equivalents at end of year	¥ <u>715,793</u>	<u>727,733</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, 2018 and March 31, 2019

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

63 companies

Major consolidated subsidiaries are as follows:

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

Changes in scope of consolidation

Leadenhall Life II GP Limited has been included in the scope of consolidation since the year ended March 31, 2019 as it was newly established.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
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Significant Accounting Policies (Continued)

(2) Unconsolidated subsidiaries

Major unconsolidated subsidiary is as follows:

MSK Anshin Station Company, Limited

Certain subsidiaries including the above subsidiary are not consolidated, as they are not considered to 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

12 companies

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

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

Changes in scope of application of equity method

Ceylinco Insurance PLC has become an equity method affiliate during the year ended March 31, 2019 due to the Company's acquisition of shares.

Arena Holdings Limited and 2 other companies have been excluded from the scope of application of the equity method during the year ended March 31, 2019 due to sales of their shares.

(2) Other affiliates, including unconsolidated subsidiaries and associates (e.g. MSK Anshin Station Company, Limited and Hong Leong MSIG Takaful Berhad), are stated at cost as their effects on 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 61 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)

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

- (i) Trading securities are valued at their year-end market prices and cost of sales is calculated using the first-in first-out method.
- (ii) Held-to-maturity securities are valued at amortized cost.
- (iii) Investments in unconsolidated subsidiaries and associates that are not accounted for under the equity method are valued at cost determined by the moving average method.
- (iv) Available-for-sale securities (except for those without practically determinable fair value) are valued at their year-end market prices.

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

- (v) Available-for-sale securities without practically determinable fair value are valued at cost using the moving average method.
- (vi) Money trusts specifically managed for the Company for trading purposes are valued at fair value.
Money trusts specifically managed for the Company, other than money trusts those held for trading purposes or 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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
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Significant Accounting Policies (Continued)

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 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 to provide for their future retirement benefits (including pension).

(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 Japanese 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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
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Significant Accounting Policies (Continued)

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 overseas consolidated subsidiaries are translated into Japanese yen using the spot exchange rate prevailing at their respective year ends, while shareholders' equity is translated at the historical rates. Income and expenses of overseas consolidated subsidiaries are translated into Japanese yen using the average exchange rate for the year. Differences arising from such translations are included in Foreign currency translation adjustments and Non-controlling interests in Net Assets.

(7) Accounting for consumption taxes

Consumption taxes received or paid by the Company and its domestic consolidated subsidiaries are not included in income or expenses, except for those 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.

(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 fair

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Significant Accounting Policies (Continued)

value 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.

Hedge effectiveness is assessed quarterly by comparing cumulative fluctuations in fair value or cash flows of the hedged items and hedging instruments for the periods from the respective start dates of the hedges to the assessment dates. When the hedged items and the hedging instruments are highly and clearly interrelated, when the interest rate swap contracts meet the criteria for 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 a period of 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
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Notes to Consolidated Balance Sheets

As of March 31, 2018 and March 31, 2019

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

	(in ¥ million)	
	March 31, 2018	March 31, 2019
Accumulated depreciation	298,316	301,980
Accelerated depreciation	14,242	13,985

(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, 2018 and March 31, 2019 were ¥14,242 million and ¥13,985 million, respectively.

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

	(in ¥ million)	
	March 31, 2018	March 31, 2019
Securities (Domestic stocks)	11,516	17,944
Securities (Foreign securities)	141,993	129,940
Securities (Other securities)	13,797	13,578
Total	167,307	161,463

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

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, 2018	March 31, 2019
Loans to borrowers in bankruptcy	-	-
Overdue loans	103	22
Loans overdue for three months or more	279	206
Restructured loans	460	402
Total	843	631

(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 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, 2018	March 31, 2019
Pledged assets:		
Cash, deposits and savings	3,816	3,442
Securities	290,122	358,293
Total	293,939	361,736

(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
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

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

(in ¥ million)	
March 31, 2018	March 31, 2019
207,822	206,394

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 ¥130,771 million and ¥115,078 million, respectively in a negative liability position as of March 31, 2018 and March 31, 2019. 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, 2018	March 31, 2019
3,000	4,593

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 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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

(ii) Details of financial instruments and associated risks

The Group's financial assets mainly consist of securities including domestic bonds, domestic stocks and foreign securities, loans and other financial instruments. Risks pertaining to investments include market risks, credit risks, 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, equity forward 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 non-performance 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
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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.

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

(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, 2018 and March 31, 2019 together with their differences. The following tables exclude financial instruments in which the fair values are not practically determinable (see Note 2).

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) Securities:			
Trading securities	748,032	748,032	-
Investments in associates	-	-	-
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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

March 31, 2019

(in ¥ million)

	Carrying amount	Fair value	Difference
(i) Cash, deposits and savings	872,285	872,443	157
(ii) Receivables under resale agreements	6,999	6,999	-
(iii) Monetary claims bought	54,241	54,241	-
(iv) Money trusts	3,636	3,636	-
(v) Securities:			
Trading securities	856,261	856,261	-
Investments in associates	3,170	4,013	842
Available-for-sale securities	4,208,119	4,208,119	-
(vi) Loans	398,273		
Bad debt reserve (*1)	(1)		
	398,272	403,286	5,014
Total assets	6,402,987	6,409,002	6,015
Bonds issued	487,093	500,809	13,715
Total liabilities	487,093	500,809	13,715
Derivative transactions (*2):			
Hedge accounting not applied	17,376	17,376	-
Hedge accounting applied	516	516	-
Total derivative transactions	17,893	17,893	-

(*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

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

financial institutions is deemed as the fair value.

(iv) Money trusts

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

(v) 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) Securities” above, are as follows:

	(in ¥ million)	
	March 31, 2018	March 31, 2019
Unlisted stocks and other assets invested in unconsolidated subsidiaries and associates	167,307	158,293
Other unlisted stocks	25,068	24,445
Unlisted investment trusts	21,671	51,250
Partnership investments comprising unlisted stocks	25,260	28,389
Total	239,308	262,377

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, 2018	March 31, 2019
Carrying amount	40,921	42,110
Fair value	112,655	113,852

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

	March 31, 2018	March 31, 2019
Net assets per share (in ¥)	1,249.15	1,140.63
Non-controlling interests deducted from net assets (in ¥ million)	30,387	29,733
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)

11. Significant subsequent events

(Transaction under common control)

Based on the Agreement on Reorganization by Function concluded on September 27, 2013 between the Company and its parent company MS&AD Insurance Group Holdings, Inc., Aioi Nissay Dowa Insurance Company, Limited (“ADI”) and Mitsui Sumitomo Aioi Life Insurance Company, Limited (“MSAL”), the Company and MSAL as well as ADI and MSAL concluded the Absorption-type Company Split Agreement on June 28, 2018 and completed the reorganization on April 1, 2019. The purpose of the agreement is to transfer the long-term contracts of the third sector insurance market held by the Company and ADI to MSAL.

(1) Overview of the transaction

(i) Name and description of the subject business

Business related to the long-term contracts of the third sector insurance market held by the Company

(ii) Date of business combination

April 1, 2019

(iii) Legal form of business combination

Simple absorption-type company split where the Company is designated as the splitting company and MSAL as the successor company

(iv) Acquiring company name after business combination

Mitsui Sumitomo Aioi Life Insurance Company, Limited

(v) Other items regarding overview of the transaction

By centralizing the product supply function in MSAL, MS&AD Insurance Group aims to realize efficient operation through further improvement of level of customer support and concentration of management resources, demonstrate MS&AD Insurance Group’s comprehensive strength, and enhance customer satisfaction, its ability to grow and generate profits.

(2) Overview of the accounting treatment applied

The Company plans to apply “Accounting Standard for Business Combination” (ASBJ Statement No. 21, January 16, 2019) and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10, January 16, 2019) for the treatment of transaction under common control.

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

For the years ended March 31, 2018 and March 31, 2019

1. Major components of business expenses are as follows:

	(in ¥ million)	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Commission expenses	372,583	386,335
Salaries	179,539	175,650

(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, 2018

			(in ¥ million)		
Use	Category	Description	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 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
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Notes to Consolidated Statements of Income (Continued)

For the year ended March 31, 2019

(in ¥ million)

Use	Category	Description	Impairment losses on fixed assets	Breakdown	
Idle real estate and real estate for sale and others	Land, buildings and Other tangible fixed assets	20 properties, including a company residence in Nara	639	Land	203
				Buildings	294
				Other tangible fixed assets	141

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

As the idle real estate and real estate for sale in the above table were to be disposed in the near future, the carrying amounts of the assets were reduced to recoverable amounts, and the aggregate difference between them 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 or the assessment of inheritance tax using roadside land prices.

3. Details of Other extraordinary losses are as follows:

For the year ended March 31, 2019

Other extraordinary losses represent additional retirement benefits due to the personnel reduction at MS Amlin plc and its subsidiaries.

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

	For the year ended March 31, 2018	For the year ended March 31, 2019
Net income/(loss) attributable to owners of the parent per share (in ¥)	53.36	90.98

(Notes)

1. Since there was no potential dilution for the years ended March 31, 2018 and 2019, diluted net income/(loss) per share is not presented.
2. The basis of calculation is as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
Net income/(loss) attributable to owners of the parent (in ¥ million)	74,943	127,772
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 Statements of Comprehensive Income

For the years ended March 31, 2018 and March 31, 2019

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

	2018	2019
	(in ¥ million)	
Net unrealized gains/(losses) on securities:		
Gains/(losses) arising during the period	249,921	(83,163)
Reclassification adjustments	<u>(121,376)</u>	<u>(117,522)</u>
Before income tax effect adjustments	128,544	(200,685)
Income tax effects	<u>(34,433)</u>	<u>54,960</u>
Net unrealized gains/(losses) on securities	<u>94,111</u>	<u>(145,725)</u>
Net deferred gains/(losses) on hedges:		
Gains/(losses) arising during the period	549	2,172
Reclassification adjustments	<u>(5,368)</u>	<u>(4,895)</u>
Before income tax effect adjustments	(4,819)	(2,723)
Income tax effects	<u>1,298</u>	<u>1,015</u>
Net deferred gains/(losses) on hedges	<u>(3,520)</u>	<u>(1,707)</u>
Foreign currency translation adjustments:		
Gains/(losses) arising during the period	<u>21,867</u>	<u>(56,369)</u>
Actuarial gains/(losses) on retirement benefits:		
Gains/(losses) arising during the period	8,511	4,265
Reclassification adjustments	<u>5,731</u>	<u>2,916</u>
Before income tax effect adjustments	14,243	7,181
Income tax effects	<u>(3,912)</u>	<u>(1,496)</u>
Actuarial gains/(losses) on retirement benefits	<u>10,331</u>	<u>5,685</u>
Share of other comprehensive income/(loss) of equity method investments:		
Gains/(losses) arising during the period	1,788	(5,783)
Reclassification adjustments	<u>(1,288)</u>	<u>(1,576)</u>
Share of other comprehensive income/(loss) of equity method investments	<u>500</u>	<u>(7,359)</u>
Total other comprehensive income/(loss)	<u>123,290</u>	<u>(205,477)</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, 2018 and March 31, 2019

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 Changes in Net Assets (Continued)

For the year ended March 31, 2019

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 16, 2018	Common stock	53,280	37.93	March 31, 2018	May 25, 2018
Board meeting held on November 15, 2018	Common stock	22,016	15.67	-	November 22, 2018

(2) Dividends declared effective after March 31, 2019 for which the date of record is in the year ended March 31, 2019

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, 2019	Common stock	61,817	Retained earnings	44.01	March 31, 2019	May 27, 2019

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Cash Flows

For the years ended March 31, 2018 and March 31, 2019

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

	(in ¥ million)	
	2018	2019
Cash, deposits and savings	896,065	872,285
Receivables under resale agreements	6,999	6,999
Monetary claims bought	100,134	54,241
Securities	5,567,171	5,329,929
Time deposits with original maturities of more than three months	(212,701)	(165,535)
Monetary claims bought other than cash equivalents	(94,551)	(49,238)
Securities other than cash equivalents	(5,547,324)	(5,320,949)
Cash and cash equivalents	715,793	727,733

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

For the year ended March 31, 2018

MS First Capital Insurance Limited (“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.