

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

**financial statements**

**for the year ended 31 march 2020**

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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 2020.

Information regarding the corporate governance policies, practices and processes of Mitsui Sumitomo Insurance Company Limited is available from <https://www.ms-ad-hd.com/en/group/value/corporate.html>

**STATEMENT OF COMPREHENSIVE INCOME**  
For the year end 31 March 2020

	Notes	2020 \$	2019 \$
Gross earned premium	1	9,116,936	8,690,453
Reinsurance expense	2	(4,120,261)	(4,028,163)
<b>Net Premium Revenue</b>		<b>4,996,675</b>	<b>4,662,290</b>
Claims Expense	4	(976,682)	1,142,646
Reinsurance and Other Recoveries	1	2,630,460	97,076
<b>Net Claims Benefit/Expense</b>		<b>1,653,778</b>	<b>1,239,722</b>
Commissions	6	(255,151)	(397,805)
Reinsurance commission income	1	492,664	539,424
<b>Net Acquisition Costs</b>		<b>237,513</b>	<b>141,619</b>
<b>Underwriting Result</b>		<b>6,887,966</b>	<b>6,043,631</b>
<b>Operating Expenses</b>	3	<b>(1,299,933)</b>	<b>(1,114,861)</b>
Investment income	1	1,028,135	1,343,949
Sundry income	1	95	244
<b>Net Profit Before Tax</b>		<b>6,616,263</b>	<b>6,272,963</b>
Taxation expense	5	-	-
<b>Net Profit for the Year</b>		<b>6,616,263</b>	<b>6,272,963</b>
Other comprehensive income for the year		-	-
<b>Total Comprehensive Income for the Year</b>		<b>6,616,263</b>	<b>6,272,963</b>

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

**STATEMENT OF MOVEMENT IN HEAD OFFICE ACCOUNT**  
For the year ended 31 March 2020

	2020 \$	2019 \$
<b>Opening Head Office Balance</b>	<b>57,570,041</b>	<b>51,297,078</b>
Net Profit for the Year	6,616,263	6,272,963
<b>Total Comprehensive Income for the Year</b>	<b>6,616,263</b>	<b>6,272,963</b>
<b>Closing Head Office Balance</b>	<b>64,186,304</b>	<b>57,570,041</b>

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





**STATEMENT OF FINANCIAL POSITION**  
As at 31 March 2020

	Notes	31 March 2020 \$	31 March 2019 \$
<b>Assets</b>			
Cash and Cash Equivalents		66,213,340	61,561,531
Premium Receivables		1,897,050	1,653,703
Other Current Assets	6	1,086,578	907,489
Reinsurance Receivable		16,842,065	14,557,885
Reinsurance Recoveries	7	28,268,304	28,381,933
<b>Total Assets</b>		<b>114,307,337</b>	<b>107,062,541</b>
<b>Liabilities</b>			
Accounts Payable	8	396,039	337,701
Reinsurance Payable		173,322	274,216
Other Current Liabilities	9	335,858	290,773
Unearned Premium Reserve	10	3,035,934	2,719,069
Outstanding Claims Liability	11	42,139,280	42,409,810
Due to Related Parties	15	4,040,600	3,460,931
<b>Total Liabilities</b>		<b>50,121,033</b>	<b>49,492,500</b>
<b>Net Assets</b>		<b>64,186,304</b>	<b>57,570,041</b>
<b>Head Office Account</b>		<b>64,186,304</b>	<b>57,570,041</b>


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

For and on behalf of the Board of Directors

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

08/07/2020

Date

  
Tamaki Kawate  
Director, Senior Executive Officer  
Mitsui Sumitomo Insurance Company, Ltd.

08/07/2020

Date

MITSUI SUMITOMO INSURANCE COMPANY LIMITED  
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**STATEMENT OF CASH FLOWS**  
For the year ended 31 March 2020

	Notes	2020 \$	2019 \$
<b>Cash flows from operating activities</b>			
Premiums received		9,190,453	8,522,230
Reinsurance and other recoveries received		459,909	79,133
Interest received		1,046,139	1,335,282
Claims paid		(1,247,212)	(5,428,663)
Reinsurance premiums paid		(4,397,571)	(4,368,343)
Net acquisition costs		242,135	230,265
Operating expenses paid		(642,044)	(522,583)
<b>Net cash from/ (used in) operating activities</b>	<b>17</b>	<b>4,651,809</b>	<b>(152,679)</b>
<b>Cash flows from investing activities</b>			
<b>Net cash from/ (used in) investing activities</b>		<b>-</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>4,651,809</b>	<b>(152,679)</b>
Cash and cash equivalents at the beginning of the financial year		61,561,531	61,714,210
<b>Cash and cash equivalents at the end of the financial year</b>		<b>66,213,340</b>	<b>61,561,531</b>

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

MITSUI SUMITOMO INSURANCE COMPANY LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**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 2020. The financial statements were authorised for issue by the Directors on the 8th of July 2020.

**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  
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**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**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.

**Investment income**

Interest income is recognised in the period in which it is earned. Investment income includes realised and unrealised gains or losses on financial assets which are reported on a combined basis as net fair value gains or losses on financial assets in the Statement of Comprehensive Income.

MITSUI SUMITOMO INSURANCE COMPANY LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**Significant Accounting Policies (Continued)**

**Outstanding Claims Liability**

The central estimate of outstanding claims liabilities is the best estimate of the present value of future projected claims payments and associated claim handling costs in respect of claims reported but not yet paid, claims incurred but not reported ("IBNR") and claims incurred but not enough reported ("IBNER").

Standard actuarial methods are applied to all BAU classes of business to assess the central estimate of outstanding claims liabilities. Features and trends of claims experience including claim frequencies, average claim sizes and individual claim estimates are analysed and assumptions about the future are selected. The earthquake outstanding claims liabilities were evaluated on a claim by claim basis, including information from expert loss adjustors and claim managers.

A risk margin is added to the central estimate in determining the outstanding claims liabilities. The risk margin is designed to increase the probability of the outstanding claims liabilities proving ultimately to be adequate.

**Acquisition Costs**

Acquisition costs incurred in obtaining and recording insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to revenue that will be recognised in profit or loss in subsequent reporting periods. Deferred acquisition costs are measured at the lower of cost and recoverable amount. Deferred acquisition costs are amortised in accordance with the expected pattern of incidence of risk under the insurance contract to which they relate.

**Liability Adequacy Testing**

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally the reserve is released over the term of the insurance contract and is recognised as premium income.

A liability adequacy test is performed at each balance date to assess whether there are any deficiencies in the unearned premium reserve due to expected future claims and claims costs. The amount of these expected future claims is estimated using the present value of future claims and expenses plus an additional risk margin to reflect the inherent uncertainty in those estimated cash flows. This is compared to the unearned premium reserve net of deferred acquisition costs. Any deficiency is recognised in profit or loss after first writing down any deferred acquisition costs. Any shortfall after having written down acquisition costs is then recognised in profit or loss with the corresponding amount recognised in the Statement of Financial Position as an unexpired risk liability.

The liability adequacy test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio. No deficiency was identified as at 31 March 2020 (2019: Nil).



MITSUI SUMITOMO INSURANCE COMPANY LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**Significant Accounting Policies (Continued)**

**Reinsurance Receivables and Recoveries**

Reinsurance receivables, being amounts recoverable on paid claims, and reinsurance recoveries on outstanding claims liabilities are recognised in revenue. On initial recognition of reinsurance receivables an assessment of expected credit loss is performed, and amount provided for where required with the impairment charge recognised in the profit and loss. The expected credit losses are then assessed on an ongoing basis. Receivables from Insurance and reinsurance contracts are not required to be assessed for lifetime expected credit losses under NZ IFRS9, however amounts are provided for where credit risks are present.

**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.

**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. Assets that are subsequently measured at fair value through profit or loss are not subject to impairment considerations under the expected credit losses model.

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.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**Significant Accounting Policies (Continued)**

**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.

**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.

The adoption of an expected credit loss model for impairment has had an immaterial impact on the provision for irrecoverable receivables.

**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.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**Significant Accounting Policies (Continued)**

**New accounting standards and amendments issued**

On 17 March 2020, the International Accounting Standards Board ("IASB") completed its discussions on the amendments to NZ IFRS 17 Insurance Contracts that were proposed for public consultation in June 2019. The IASB decided that the effective date of NZ IFRS 17 will be deferred to annual reporting periods beginning on or after 1 January 2023, an extension of 2 years to the original proposed effective date.

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 intends to adopt the premium allocation approach (PAA) method, but do not plan to adopt this standard early.

Finity have completed a gap analysis and do not consider the impact of the new standard to be significant, although there will be changes to disclosures and presentation, as all the insurance contracts are either annual or less than a year.



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**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**1. Total Revenue**

	2020 \$	2019 \$
Gross written premium	9,433,800	8,763,726
Change in unearned premium reserve	(316,864)	(73,273)
<b>Gross Earned Premium</b>	<b>9,116,936</b>	<b>8,690,453</b>
Reinsurance commission income	492,664	539,424
Reinsurance and other recoveries	2,630,460	97,076
<b>Reinsurance Income</b>	<b>3,123,124</b>	<b>636,500</b>
Investment income	1,028,135	1,343,949
Other income	95	244
<b>Sundry income</b>	<b>95</b>	<b>244</b>
<b>Total Revenue</b>	<b>13,268,290</b>	<b>10,671,146</b>

**(A) Premium Revenue**

	2020 \$	2019 \$
Direct	9,070,750	8,677,623
Reinsurance	46,186	12,830
<b>Total Gross Earned Premium</b>	<b>9,116,936</b>	<b>8,690,453</b>

**(B) Investment Income**

	2020 \$	2019 \$
Cash and cash equivalents interest income	1,028,135	1,343,949
<b>Total Investment Income</b>	<b>1,028,135</b>	<b>1,343,949</b>

MITSUI SUMITOMO INSURANCE COMPANY LIMITED  
NEW ZEALAND BRANCH

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**2. Reinsurance Expenses**

	2020 \$	2019 \$
Outward reinsurance premium expense	(4,322,239)	(3,741,858)
Change in unearned reinsurance premium provision	201,978	(286,305)
	<b>(4,120,261)</b>	<b>(4,028,163)</b>

**3. Operating Expenses**

	2020 \$	2019 \$
Management fee	726,780	636,700
Fees paid to auditors:		
Audit – Statutory financial statements	88,500	86,800
Tax	6,300	6,000
Employee benefits	181,182	175,741
Other Expenses	297,171	209,620
<b>Total operating expenses</b>	<b>1,299,933</b>	<b>1,114,861</b>

**4. Claims Expense**

	2020 \$	2019 \$
Direct	976,682	(1,142,646)
	<b>976,682</b>	<b>(1,142,646)</b>

Prior year claims expense is negative 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.

2020	Current Year \$	Prior Years \$	Total \$
Gross claims incurred - undiscounted	2,393,843	(1,423,264)	970,579
Discount movement	(1,385)	7,488	6,103
<b>Gross claims incurred - discounted</b>	<b>2,392,458</b>	<b>(1,415,776)</b>	<b>976,682</b>
Reinsurance and other recoveries - undiscounted	(582,442)	(2,046,241)	(2,628,683)
Discount movement	300	(2,077)	(1,777)
Reinsurance and other recoveries - discounted	(582,142)	(2,048,318)	(2,630,460)
<b>Net claims incurred</b>	<b>1,810,316</b>	<b>(3,464,094)</b>	<b>(1,653,778)</b>

MITSUI SUMITOMO INSURANCE COMPANY LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2020

**4. Claims Expense (Continued)**

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
<b>Gross claims incurred - discounted</b>	<b>1,470,389</b>	<b>(2,613,035)</b>	<b>(1,142,646)</b>
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)
<b>Net claims incurred</b>	<b>1,100,574</b>	<b>(2,340,295)</b>	<b>(1,239,722)</b>

Prior years gross claims incurred includes reduction in earthquake risk margin of \$0.7 million (2019: \$0.5 million) and a large non-RI recovery on an old claim.

Included in reinsurance recoveries is a gain of \$2,284,372 (2019: gain of \$145,688) 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**

	2020 \$	2019 \$
<b>Reconciliation of effective tax rate</b>		
Profit before tax	6,616,263	6,272,963
Income tax at Branch tax rate 28% (2019: 28%)	1,852,554	1,756,430
Recognition of previously unrecognised tax losses	(1,852,554)	(1,756,430)
<b>Total Income Tax Expense</b>	<b>-</b>	<b>-</b>

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**6. Other Current Assets**

	2020 \$	2019 \$
Accrued income	44,704	62,708
Deferred acquisition costs	118,183	103,282
Deferred reinsurance premium	856,822	654,844
Prepaid expenses	66,869	86,655
	<b>1,086,578</b>	<b>907,489</b>

**(A) Deferred acquisition costs**

	2020 \$	2019 \$
Deferred acquisition costs at 1 April	103,280	241,655
Acquisition costs deferred	270,054	259,430
Amortisation charged to the profit or loss	(255,151)	(397,805)
<b>Deferred acquisition costs at 31 March</b>	<b>118,183</b>	<b>103,280</b>

**(B) Deferred Reinsurance premium**

	2020 \$	2019 \$
Deferred reinsurance premium at 1 April	654,842	941,149
Reinsurance premium deferred	4,322,241	3,741,856
Reinsurance premium charged to the profit or loss	(4,120,261)	(4,028,163)
<b>Deferred reinsurance premium at 31 March</b>	<b>856,822</b>	<b>654,842</b>

**7. Reinsurance Recoveries**

	2020 \$	2019 \$
Reinsurance recoveries arising from claims	28,268,304	28,381,933
Reinsurance and other recoveries receivable at 1 April	28,381,933	34,084,168
Recoveries on claims reassessed	2,048,318	(272,740)
Recoveries received	(2,744,089)	(5,799,312)
Recoveries on new claims	582,142	369,815
<b>Reinsurance and other recoveries receivable at 31 March</b>	<b>28,268,304</b>	<b>28,381,933</b>



MITSUI SUMITOMO INSURANCE COMPANY LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2020

**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**

	2020 \$	2019 \$
Trade creditors and accruals	318,206	243,548
Government levies	47,729	87,952
Gst payable	30,104	6,201
	<b>396,039</b>	<b>337,701</b>

**9. Other Current Liabilities**

	2020 \$	2019 \$
Unearned reinsurance commission	124,264	104,741
Non-resident withholding tax	211,594	186,032
	<b>335,858</b>	<b>290,773</b>

**(A) Unearned Reinsurance Commission**

	2020 \$	2019 \$
Unearned reinsurance commission at 1 April	104,741	154,470
Reinsurance commission deferred	512,187	489,695
Reinsurance commission recognised in profit or loss	(492,664)	(539,424)
<b>Unearned reinsurance commission at 31 March</b>	<b>124,264</b>	<b>104,741</b>

**10. Unearned Premium Reserve**

	2020 \$	2019 \$
Unearned premium liability at 1 April	2,719,069	2,645,796
Deferral of premium on contracts written at year end	3,035,934	2,719,069
Prior year premium earned	(2,719,069)	(2,645,796)
<b>Unearned premium liability at 31 March</b>	<b>3,035,934</b>	<b>2,719,069</b>

MITSUI SUMITOMO INSURANCE COMPANY LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**10. Unearned Premium Reserve (Continued)**

**Liability adequacy test**

A liability adequacy test ("LAT") was performed as at 31 March 2020 and 31 March 2019. Both tests identified a surplus, the calculations for which are disclosed below:

	2020 \$	2019 \$
Gross unearned premium	3,035,934	2,719,069
Deferred reinsurance premium	(856,822)	(654,842)
Deferred acquisition expenses – net of reinsurance	6,081	1,461
Premium available to meet expected claims cost	<b>2,185,193</b>	<b>2,065,688</b>
Net premium liability (including 75% probability of adequacy risk margin)	<b>1,862,438</b>	1,714,057
LAT result	Pass	Pass

The risk margin included in the Branch's expected future cash flows for future claims is 38% (2019: 38%). 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**

	2020 \$	2019 \$
Central estimate of outstanding claims liabilities	40,582,075	40,323,669
Discount to present value	(1,124)	(5,823)
Risk margin	1,426,518	2,002,812
Claims handling expense	131,811	89,152
	<b>42,139,280</b>	<b>42,409,810</b>

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 2020

**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	2014 & Prior	2015	2016	2017	2018	2019	2020	Total
	\$	\$	\$	\$	\$	\$	\$	\$
At end of accident year	175,336,944	3,219,289	3,554,776	920,486	902,590	1,227,926	2,007,724	187,169,735
One year later	166,904,966	3,011,577	3,393,984	740,329	625,580	746,505		175,422,941
Two years later	175,330,796	3,033,971	3,404,601	670,449	609,515			183,049,332
Three years later	175,487,285	3,031,520	2,037,220	668,255				181,224,280
Four years later	175,421,652	3,031,644	2,035,938					180,489,233
Five years later	175,398,854	3,031,643						178,430,497
Six years later	175,398,855							175,398,855
<b>Total current estimate of ultimate</b>								
Claims costs	175,398,855	3,031,643	2,035,938	668,255	609,515	746,505	2,007,724	184,498,435
Cumulative payments	136,298,963	3,031,643	2,035,936	668,255	609,514	704,186	567,863	143,916,360
Undiscounted central estimate	39,099,892	-	2	-	1	42,319	1,439,861	40,582,075
Discount	22	-	-	-	-	21	1,081	1,124
Discounted central estimate	39,099,870	-	2	-	1	42,298	1,438,780	40,580,951
Claims handling expense	5,921	-	-	-	-	3,595	122,295	131,811
Risk margin	1,137,218	-	-	-	-	8,262	281,036	1,426,518
Gross outstanding claims liability	40,243,009	-	2	-	1	54,155	1,842,111	42,139,280
Reinsurance recoveries on outstanding claims liability	(27,815,094)	-	-	-	-	(3,298)	(449,912)	(28,268,304)
Net outstanding claims liability	12,427,915	-	2	-	1	50,857	1,392,199	13,870,976

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**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**11. Outstanding Claims Liability (Continued)**

**(C) Reconciliation of movement in outstanding claims**

	2020 \$	2019 \$
Outstanding claims liability at 1 April	42,409,810	48,981,119
Claims reassessed	(1,415,776)	(2,613,035)
Claims paid	(1,247,212)	(5,428,663)
New claims	2,392,458	1,470,389
<b>Outstanding claims liability at 31 March</b>	<b>42,139,280</b>	<b>42,409,810</b>

**12. Deferred Tax**

At 31 March 2020 the Branch has unused tax losses of \$61,740,037 (2019: \$68,356,300) for which no deferred tax asset is recognised, as there is significant uncertainty (as discussed in note 11) in determining whether probable future taxable profits are available.

**13. Contingent Liabilities**

The Branch has no contingent liabilities at balance date (2019: Nil).

**14. Commitments**

The Branch has no commitments for expenditure at balance date (2019: 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.

<b>Transactions with Head Office:</b>	2020 \$	2019 \$
Reinsurance premiums	913,320	870,170
Reinsurance recoveries	(127,053)	(29,532)
Reinsurance commission earned	(182,267)	(194,367)
Other expense paid/ recharged	(24,331)	(41,515)
	<b>579,669</b>	<b>604,756</b>



MITSUI SUMITOMO INSURANCE COMPANY LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2020

**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.

	2020 \$	2019 \$
<b>Outstanding balance with Head Office:</b>		
Due to related parties	4,040,600	3,460,931

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

	2020 \$	2019 \$
<b>Transactions with Aioi:</b>		
Management Fees Paid	39,500	36,700

**Outstanding balance with Aioi:**

Other current assets	66,869	86,655
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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:

	2020 \$	2019 \$
Short-term employee benefits	174,578	166,756

**16. Credit Rating**

Mitsui Sumitomo Insurance Company Limited has received an A+ (2019: A+) credit rating from Standard and Poor's. The credit rating is an indication of the ability to pay current and future claims.

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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2020

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

	2020 \$	2019 \$
Net profit for the period	6,616,263	6,272,963
Movement in premium receivables	(243,347)	(241,495)
Movement in tax receivable	-	4,285
Movement in reinsurance receivables	(2,284,180)	(5,720,178)
Movement in reinsurance recoveries	113,629	5,702,234
Movement in other current assets	(179,089)	423,630
Movement in accounts payable	58,338	(24,625)
Movement in reinsurance payable	(100,894)	(636,686)
Movement in other current liabilities	45,085	(39,528)
Movement in outstanding claims liability	(270,530)	(6,571,308)
Movement in unearned premium reserve	316,865	73,273
Movement in amounts due to related parties	579,669	604,756
<b>Net cash flow from operating activities</b>	<b>4,651,809</b>	<b>(152,679)</b>

**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 2020 Annual Report and the 31 March 2020 supplement to the Earnings Report available from [www.ms-ad-hd.com](http://www.ms-ad-hd.com), as calculated under the Japanese regulations. The 2020 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.

	2020 NZD in millions (Unaudited)	2019 NZD in millions (Unaudited)
Actual Solvency Capital [A]	47,264	44,160
Minimum Solvency Capital [B]	13,478	12,211
Solvency Margin [A-B]	33,786	31,949
Solvency Ratio [A/B*2]*100	701.3%	723.3%

Solvency ratio under the Reserve Bank of New Zealand method is 351% (2019:362%).

MITSUI SUMITOMO INSURANCE COMPANY LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2020

**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 \$51,135,099 and \$15,078,241 respectively (2019: \$46,483,647 and \$15,077,884 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 \$10,249,645 (2019: \$9,755,323).

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	
2020	\$	\$	\$	\$	\$
Cash and cash equivalents	66,213,340	-	-	-	66,213,340
Premium receivables	-	-	-	1,897,050	1,897,050
Other current assets – accrued income	44,704	-	-	-	44,704
Reinsurance receivable	4,328,411	11,839,971	-	673,683	16,842,065
Reinsurance recoveries	7,260,497	19,877,769	-	1,130,038	28,268,304
<b>Total</b>	<b>77,846,952</b>	<b>33,717,740</b>	<b>-</b>	<b>3,700,771</b>	<b>113,265,463</b>



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**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**19. Financial Risk Management (Continued)**

2019	Credit Rating				Total \$
	AA \$	A \$	BBB \$	Not Rated \$	
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
<b>Total</b>	<b>72,654,235</b>	<b>31,695,231</b>	<b>-</b>	<b>1,868,294</b>	<b>106,217,760</b>

As at 31 March 2020 there are no assets that are past due or impaired (2019: 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**

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**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
2020	\$	\$	\$	\$	\$
<b>Financial Liabilities</b>					
Reinsurance Payable	173,322	-	-	-	173,322
Due to Related Parties	-	-	-	4,040,600	4,040,600
Trade Creditors and accruals	318,206	-	-	-	318,206
<b>Total</b>	<b>491,528</b>	<b>-</b>	<b>-</b>	<b>4,040,600</b>	<b>4,532,128</b>

	Maturing in:				
	0-1 Year	1-2 Year	2-4 Year	No Term	Total
2019	\$	\$	\$	\$	\$
<b>Financial Liabilities</b>					
Reinsurance Payable	274,216	-	-	-	274,216
Due to Related Parties	-	-	-	3,460,931	3,460,931
Trade Creditors and accruals	243,548	-	-	-	243,548
<b>Total</b>	<b>517,764</b>	<b>-</b>	<b>-</b>	<b>3,460,931</b>	<b>3,978,695</b>

MITSUI SUMITOMO INSURANCE COMPANY LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2020

**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 2020, as cumulative claims payments have now exceeded the reinsurance recovery threshold \$172,536 (2019: \$147,049).

**(ii) Price risk**

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

**(iii) Interest rate risk**

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

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

**Cash flow Sensitivity Analysis for Floating Rate Instruments**

	Interest Rate Risk		
	Carrying Amount	-1%	+1%
		Profit/Equity	Profit/Equity
2020	\$	\$	\$
Financial Assets	66,213,340	(662,133)	662,133
Cash and Cash Equivalents			

MITSUI SUMITOMO INSURANCE COMPANY LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2020

**19. Financial risk management (Continued)**

**Interest Rate Risk**

		-1%	+1%
	Carrying Amount	Profit/Equity	Profit/Equity
2019	\$	\$	\$
<b>Financial Assets</b>			
Cash and Cash Equivalents	61,561,531	(615,615)	615,615

**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
2020	\$	\$	\$
<b>Financial Assets</b>			
Cash and Cash Equivalents	66,213,340	66,213,340	-
Other Current Assets – Accrued Income	44,704	44,704	-
<b>Total</b>	<b>66,258,044</b>	<b>66,258,044</b>	<b>-</b>

	Total	Fair Value through Profit and Loss	Financial Liabilities at Amortised Cost
	\$	\$	\$
<b>Financial Liabilities</b>			
Accounts Payable - Trade	318,206	-	318,206
Creditors and Accruals			
Reinsurance Payable	173,321	-	173,321
Due to Related Parties	4,040,600	-	4,040,600
<b>Total</b>	<b>4,532,127</b>	<b>-</b>	<b>4,532,127</b>

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**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**19. Financial risk management (Continued)**

	Total	Loans and Receivables	Fair Value through Profit and Loss
2019	\$	\$	\$
<b>Financial Assets</b>			
Cash and Cash Equivalents	61,561,531	61,561,531	-
Other Current Assets – Accrued Income	62,708	62,708	-
<b>Total</b>	<b>61,624,239</b>	<b>61,624,239</b>	<b>-</b>

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



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NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 March 2020

**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 2020, 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.

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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2020

**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 12 months (2019: 4 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 0.3% per annum (2019:1.6%). 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 2020

**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 11% (2019: 16.7%). 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 2020 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% (2019: 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	2020	2019
Discount Rate %	+1%	(3,216)	(2,256)
	-1%	816	2,292
IBNR Tail Strengthening	+1% p.a. for 4 Quarters	73,197	66,047
Risk Margin %	+1%	124,445	118,263
	-1%	(124,445)	(118,263)



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**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**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 2020.

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 2020 are outlined in Note 21 (A) - (E) above.

The actuary has no financial interest in the Branch.

**22. Events Occurring After Reporting Date**

COVID-19 pandemic resulted in a lockdown in New Zealand from 25th of March 2020. The pandemic has impacted many organisations operationally and financially, the Branch does not consider any material exposure as a result of this lockdown.

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 2020 or the Branch's financial position as at 31 March 2020.



# Independent Auditor's Report

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

## Report on the audit of the financial statements

### Opinion

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2020;
- 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.

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 2020 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.



### 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 compliance 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 - \$42.1m

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 Probability of Adequacy for the total outstanding claims reserves.

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, and a sample of the remaining population, 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; and
- Reconciling actuarial financial statement disclosures back to the ILVR prepared by the Appointed Actuary and the underlying accounting records.

## The key audit matter

## How the matter was addressed in our audit

### Valuation of reinsurance recoveries on outstanding claims - \$28.3m

Refer to Note 7 of the financial statements.

Reinsurance recoveries represent the Branch's estimate of reinsurers' share of the costs to settle all claims that have occurred up to and including 31 March 2020. 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, review of any developments in credit ratings subsequent to balance date, and consideration of information for indicators of disputes; and
- Reconciling actuarial financial statement disclosures back to the ILVR prepared by the Appointed Actuary and the underlying accounting records.



## 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 shareholders 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.

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## 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 Jamie Munro.

For and on behalf of

KPMG  
Auckland

8 July 2020



8 July 2020

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 2020**

### **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 2020, 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**

**Sydney**

Tel +61 2 8252 3300  
Level 7, 68 Harrington Street  
The Rocks, NSW 2000

Finit Consulting Pty Limited

**Melbourne**

Tel +61 3 8080 0900  
Level 3, 30 Collins Street  
Melbourne, VIC 3000

ABN 89 111 470 270

**Auckland**

Tel +64 9 306 7700  
Level 5, 79 Queen Street  
Auckland 1010

[finit.com.au](http://finit.com.au) / [finitconsulting.co.nz](http://finitconsulting.co.nz)

8 July 2020

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 2020**

**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 2020 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 2020 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 2020 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

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

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

A handwritten signature in blue ink, appearing to read 'Matthew Clere'.

Matthew Clere  
**Associate of the New Zealand  
Society of Actuaries**

**Sydney**

Tel +61 2 8252 3300  
Level 7, 68 Harrington Street  
The Rocks, NSW 2000

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Tel +61 3 8080 0900  
Level 3, 30 Collins Street  
Melbourne, VIC 3000

ABN 89 111 470 270

**Auckland**

Tel +64 9 306 7700  
Level 5, 79 Queen Street  
Auckland 1010

[finity.com.au](http://finity.com.au) / [finityconsulting.co.nz](http://finityconsulting.co.nz)



mitsui sumitomo insurance company, limited

Financial Statements  
For the years ended March 31, 2019 and March 31, 2020

(With Independent Auditor's Report Thereon)

A blue ink signature of Masahiro Matsumoto, written in a cursive style.

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

A blue ink signature of Tamaki Kawate, written in a cursive style.

Tamaki Kawate  
Director, Senior Executive Officer  
Mitsui Sumitomo Insurance Company, Ltd.





## **Independent Auditor's Report**

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

### **Opinion**

We have audited the accompanying financial statements of Mitsui Sumitomo Insurance Company, Limited ("the Company"), which comprise the balance sheets as of March 31, 2019 and 2020, the statements of income and changes in net assets for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2019 and 2020, and its financial performance for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Company's financial reporting process.



## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are 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 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 auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## **Interest required to be disclosed by the Certified Public Accountants Act of Japan**

We do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.



Hiroyuki Yamada  
Designated Engagement Partner  
Certified Public Accountant



Ikuo Hirakuri  
Designated Engagement Partner  
Certified Public Accountant



Fumito Hirose  
Designated Engagement Partner  
Certified Public Accountant

KPMG AZSA LLC  
Tokyo Office, Japan  
June 24, 2020

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets

As of March 31, 2019 and March 31, 2020

		2019	2020
		(in ¥ million)	
	<u>Assets</u>		
Assets			
Cash, deposits and savings:	¥	451,820	489,791
Cash on hand		57	31
Deposits in banks		451,762	489,760
Receivables under resale agreements		6,999	-
Monetary claims bought		13,650	8,217
Money trusts		3,543	2,961
Securities:		5,399,897	4,925,543
Government bonds		979,885	874,430
Municipal bonds		87,459	92,416
Corporate bonds		555,690	567,429
Stock		1,728,866	1,433,930
Foreign securities		2,003,496	1,894,855
Other securities		44,498	62,481
Loans:		396,292	400,609
Policy loans		6,515	6,000
General loans		389,776	394,609
Tangible fixed assets:		207,392	209,951
Land		78,087	77,417
Buildings		115,698	112,617
Construction in progress		335	2,208
Other tangible fixed assets		13,271	17,707

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2019	2020
	(in ¥ million)	
Intangible fixed assets:	¥ 73,972	98,478
Software	14,527	49,756
Other intangible fixed assets	59,445	48,722
Other assets:	393,734	419,666
Premiums receivable	4,311	7,604
Due from agencies	122,339	125,333
Co-insurance accounts receivable	12,721	9,435
Reinsurance accounts receivable	64,100	63,139
Foreign reinsurance accounts receivable	94,274	92,577
Agency business accounts receivable	607	805
Other receivables	35,260	56,711
Accrued income	5,632	4,917
Guarantee deposits	10,323	10,597
Deposits with Japan Earthquake Reinsurance Co., Ltd.	4,138	4,365
Suspense payments	36,911	39,716
Initial margins of future markets	701	711
Derivative financial instruments	1,347	2,241
Cash collateral pledged under derivative transactions	393	941
Other assets	670	565
Deferred tax assets	-	111,516
Customers' liabilities under acceptances and guarantees	33,123	25,987
Bad debt reserve	<u>(3,282)</u>	<u>(6,635)</u>
Total assets	¥ <u>6,977,145</u>	<u>6,686,089</u>

See accompanying notes to financial statements.



MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2019	2020
	(in ¥ million)	
<u>Liabilities and Net Assets</u>		
Liabilities		
Policy liabilities:	¥ 3,798,043	3,715,273
Outstanding claims	644,153	629,241
Underwriting reserves	3,153,890	3,086,032
Bonds issued	487,093	587,093
Other liabilities:	502,358	566,927
Co-insurance accounts payable	11,656	12,977
Reinsurance accounts payable	63,195	62,131
Foreign reinsurance accounts payable	29,004	35,347
Agency business accounts payable	16	630
Payable under securities lending transactions	-	61,603
Borrowings	196,767	198,381
Income taxes payable	18,683	3,744
Deposits received	64,182	60,177
Unearned income	25	24
Other payables	46,990	45,225
Suspense receipts	23,220	21,088
Derivative financial instruments	1,787	2,770
Cash collateral received under derivative transactions	40,357	56,402
Lease obligations	1,294	1,297
Asset retirement obligations	3,881	3,913
Other liabilities	1,295	1,212
Reserve for pension and retirement benefits	134,438	120,827
Reserve for retirement benefits for officers	403	316
Accrued bonuses for employees	10,447	10,633
Reserve for reorganization by function	906	-
Reserves under the special laws:	76,003	19,007
Reserve for price fluctuation	76,003	19,007
Deferred tax liabilities	101,693	-
Acceptances and guarantees	<u>33,123</u>	<u>25,987</u>
Total liabilities	<u>5,144,511</u>	<u>5,046,067</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2019	2020
	(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:	685,439	698,675
Legal earned reserve	46,487	46,487
Other retained earnings:	638,951	652,187
Tax-exempted reserve for accelerated depreciation	15,837	15,561
Retained earnings brought forward	<u>623,113</u>	<u>636,626</u>
Total shareholder's equity	<u>918,142</u>	<u>931,378</u>
Valuation and translation adjustments:		
Net unrealized gains/(losses) on securities	885,036	683,030
Net deferred gains/(losses) on hedges	<u>29,454</u>	<u>25,613</u>
Total valuation and translation adjustments	<u>914,491</u>	<u>708,643</u>
Total net assets	<u>1,832,634</u>	<u>1,640,022</u>
Total liabilities and net assets	¥ <u>6,977,145</u>	<u>6,686,089</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Income

For the years ended March 31, 2019 and March 31, 2020

	2019	2020
	(in ¥ million)	
Ordinary income:	¥ 1,908,617	1,784,456
Underwriting income:	1,696,441	1,644,049
Net premiums written	1,509,617	1,547,930
Deposit premiums from policyholders	55,858	52,386
Investment income on deposit premiums from policyholders	32,235	30,105
Reversal of outstanding claims	-	13,585
Reversal of underwriting reserves	98,308	-
Foreign exchange gains	348	-
Other underwriting income	73	42
Investment income:	206,852	135,749
Interest and dividends income	113,912	101,912
Gains on sales of securities	121,459	58,254
Gains on redemption of securities	256	862
Gains on derivative transactions	2,343	3,419
Foreign exchange gains	625	-
Other investment income	491	1,405
Transfer of investment income on deposit premiums from policyholders	(32,235)	(30,105)
Other ordinary income	5,322	4,657
Ordinary expenses:	1,682,140	1,695,343
Underwriting expenses:	1,436,790	1,419,697
Net claims paid	910,965	888,652
Loss adjustment expenses	89,662	90,679
Commissions and collection expenses	265,429	278,348
Maturity refunds to policyholders	167,736	157,089
Dividends to policyholders	118	84
Provision for outstanding claims	2,442	-
Provision for underwriting reserves	-	3,337
Foreign exchange losses	-	985
Other underwriting expenses	436	520

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Income (Continued)

	2019	2020
	(in ¥ million)	
Investment expenses:	¥ 12,622	33,085
Investment losses on money trusts	171	566
Losses on sales of securities	5,375	4,387
Impairment losses on securities	4,052	20,878
Losses on redemption of securities	44	162
Foreign exchange losses	-	4,313
Other investment expenses	2,978	2,776
Operating expenses and general and administrative expenses	223,294	229,308
Other ordinary expenses:	9,434	13,251
Interest expense	7,734	9,353
Provision for bad debt reserve	172	3,427
Losses on bad debts	1	27
Other ordinary expenses	<u>1,526</u>	<u>442</u>
Ordinary profit/(loss)	<u>226,476</u>	<u>89,113</u>
Extraordinary income:	2,982	61,429
Gains on sales of fixed assets	2,982	4,432
Reversal of reserves under the special laws:	-	56,996
Reversal of reserve for price fluctuation	-	56,996
Extraordinary losses:	6,095	189,539
Losses on sales of fixed assets	1,265	1,307
Impairment losses on fixed assets	639	499
Provision for reserves under the special laws:	4,190	-
Provision for reserve for price fluctuation	4,190	-
Impairment loss on shares of subsidiary	-	186,325
Other extraordinary losses	<u>-</u>	<u>1,407</u>
Income/(loss) before income taxes	<u>223,363</u>	<u>(38,997)</u>
Income taxes-current	58,143	485
Income taxes-deferred	<u>(5,882)</u>	<u>(133,562)</u>
Total income taxes	<u>52,260</u>	<u>(133,076)</u>
Net income/(loss)	¥ <u>171,102</u>	<u>94,079</u>

See accompanying notes to financial statements.



MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Changes in Net Assets

For the years ended March 31, 2019 and March 31, 2020

For the year ended March 31, 2019

(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	15,503	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

Statements of Changes in Net Assets (Continued)

For the year ended March 31, 2020

(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	15,837	623,113	918,142
Changes for the year:						
Provision for tax-exempted reserve for accelerated depreciation						-
Reversal of tax-exempted reserve for accelerated depreciation				(276)	276	-
Dividends paid					(80,843)	(80,843)
Net income/(loss)					94,079	94,079
Net changes of items other than shareholder's equity						
Total changes for the year	-	-	-	(276)	13,512	13,236
Ending balance	¥ 139,595	93,107	46,487	15,561	636,626	931,378

	Valuation and translation adjustments		Total net assets
	Net unrealized gains/(losses) on securities	Net deferred gains/(losses) on hedges	
Beginning balance	¥ 885,036	29,454	1,832,634
Changes for the year:			
Provision for tax-exempted reserve for accelerated depreciation			-
Reversal of tax-exempted reserve for accelerated depreciation			-
Dividends paid			(80,843)
Net income/(loss)			94,079
Net changes of items other than shareholder's equity	(202,006)	(3,841)	(205,847)
Total changes for the year	(202,006)	(3,841)	(192,611)
Ending balance	¥ 683,030	25,613	1,640,022

# MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Significant Items for Presenting Financial Statements

For the years ended March 31, 2019 and March 31, 2020

### 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 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 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 used for hedging risks of variability in foreign

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

### Significant Items for Presenting Financial Statements (Continued)

exchange rates on foreign currency assets are accounted for under the deferred hedge method or the allocation method, and gains and losses on certain foreign exchange forward contracts 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.

#### (8) Other significant items for preparation of financial statements

##### (i) Accounting for retirement benefits

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

##### (ii) Accounting for consumption taxes

Consumption taxes received or paid are not included in income or expenses, except for those related to Loss adjustment expenses and Operating expenses and general and administrative expenses. Consumption taxes excluded from income and expenses are recorded at the net amount on the balance sheet. Non-deductible consumption taxes are recognized as expenses for the period, except for those related to the purchase of depreciable fixed assets that are not charged to expenses but deferred as Suspense payments and amortized over a period of 5 years on a straight-line basis.

#### (9) Additional information

(Consideration of the impact of COVID-19 pandemic in accounting estimates)

At present, it remains uncertain how long the COVID-19 pandemic will continue and how it will impact on the global economy. In this situation, accounting estimates, including the recoverability of deferred tax assets, incorporate certain assumptions with the scenario that the impact of COVID-19 pandemic will continue for a certain period of time during the year ending March 31, 2021.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets

As of March 31, 2019 and March 31, 2020

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

March 31, 2019	March 31, 2020
206,394	252,295

(Note) The amounts in the above table are included in Government bonds, Stock and Foreign securities under Securities as of March 31, 2019 and March 31, 2020.

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, 2019	March 31, 2020
Loans to borrowers in bankruptcy	-	19
Overdue loans	22	78
Loans overdue for 3 months or more	206	190
Restructured loans	402	314
Total	631	603

(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, 2019	March 31, 2020
Accumulated depreciation	277,794	279,713
Accelerated depreciation	13,985	13,593

(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, 2019 and March 31, 2020 were ¥13,985 million and ¥13,593 million, respectively.

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

(in ¥ million)

	March 31, 2019	March 31, 2020
Total amounts receivable	10,629	21,088
Total amounts payable	21,869	14,028

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

(in ¥ million)

	March 31, 2019	March 31, 2020
Deferred tax assets:		
Securities	12,763	79,168
Land	6,319	6,068
Software	16,824	19,826
Outstanding claims	21,023	17,194
Underwriting reserves	142,738	157,622
Reserve for pension and retirement benefits	37,508	33,710
Reserve for price fluctuation	21,205	5,302
Tax loss carryforwards (Note)	-	73,765
Others	13,683	14,339
Total gross deferred tax assets	272,066	406,999
Valuation allowance for tax loss carryforwards (Note)	-	-
Valuation allowance for total amount of deductible temporary difference	(11,963)	(13,625)
Less: total valuation allowance	(11,963)	(13,625)
Total net deferred tax assets	260,103	393,374
Deferred tax liabilities:		
Net unrealized gains on securities	(342,476)	(264,307)
Others	(19,320)	(17,550)
Total gross deferred tax liabilities	(361,796)	(281,857)
Net deferred tax assets (liabilities)	(101,693)	111,516



MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

(Note) Amounts of tax loss carryforwards and associated deferred tax assets by expiration date are as follows:

(in ¥ million)

	Within 1 year	Over 2 to 3 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Total
Tax loss carryforwards (*1)	-	-	-	-	-	73,765	73,765
Less valuation allowance	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	73,765	(*2)73,765

(\*1) Tax loss carryforwards represents the amount multiplied by the statutory effective tax rate.

(\*2) Tax loss carryforwards is of temporary nature pertaining to the reorganization of international business conducted during the year ended March 31, 2020.

The Company normally generates sufficient taxable income and therefore did not recognize a valuation allowance for the entire tax loss carryforwards based on the recoverability assessment with expected future taxable income.

6. Guarantees and similar arrangements for subsidiaries and associates

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.

March 31, 2020

(Guarantees)

The Company provides a guarantee of ¥154,619 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 ¥183,429 million as of March 31, 2020.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

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

(in ¥ million)

	March 31, 2019	March 31, 2020
Stock	1,393,572	1,355,730
Other investment	24,195	27,301

8. The amounts of pledged assets are as follows:

(in ¥ million)

	March 31, 2019	March 31, 2020
Securities	84,203	132,405

(Note) The amounts in the above table primarily consist of collateral assets required for international operations and for Real Time Gross Settlement of the current account with the Bank of Japan.

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

- (1) Details of Outstanding claims are as follows:

(in ¥ million)

	March 31, 2019	March 31, 2020
Gross outstanding claims (except for (b))	775,943	809,842
Reinsurance recoverable on unpaid losses	179,092	225,341
Net (a)	596,850	584,501
Outstanding claims related to earthquakes and compulsory automobile liability insurance (b)	47,303	44,739
Total (a) + (b)	644,153	629,241

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

(in ¥ million)

	March 31, 2019	March 31, 2020
Gross ordinary underwriting reserves	1,324,642	1,308,950
Reinsurance recoverable on underwriting reserves	81,727	93,706
Net (a)	1,242,914	1,215,243
Gross refund reserves	1,118,380	1,034,534
Reinsurance recoverable on refund reserves	-	-
Net (b)	1,118,380	1,034,534
Other underwriting reserves (c)	792,594	836,253
Total (a) + (b) + (c)	3,153,890	3,086,032

10. Information on business combination is presented in "Consolidated Financial Statements - Notes to Consolidated Balance Sheets 10. Business combination".

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

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

	March 31, 2019	March 31, 2020
Net assets per share (in ¥)	1,304.92	1,167.77
Amounts deducted from net assets (in ¥ million)	-	-
Outstanding common stock (in thousands of shares)	1,404,402	1,404,402

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

The Company provides guarantees on transactions conducted by a limited partnership entity. The aggregate net present values of these transactions were ¥115,078 million and ¥112,259 million, respectively, in a negative liability position as of March 31, 2019 and March 31, 2020. These amounts were not included in Customers' liabilities under acceptances and guarantees or Acceptances and guarantees since there was no substantial exposure.

13. The unutilized balances of commitment lines to third parties are as follows:  
(in ¥ million)

March 31, 2019	March 31, 2020
4,593	7,259

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, 2019 and March 31, 2020

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

	(in ¥ million)	
	For the year ended March 31, 2019	For the year ended March 31, 2020
Income	60,769	55,594
Expenses	49,933	56,628

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

	(in ¥ million)	
	For the year ended March 31, 2019	For the year ended March 31, 2020
Gross premiums written	1,881,150	1,956,641
Less reinsurance premiums ceded	371,532	408,710
Net	1,509,617	1,547,930

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

	(in ¥ million)	
	For the year ended March 31, 2019	For the year ended March 31, 2020
Gross claims paid	1,331,319	1,289,584
Less claim recoveries from reinsurance ceded	420,353	400,931
Net	910,965	888,652

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

	(in ¥ million)	
	For the year ended March 31, 2019	For the year ended March 31, 2020
Commissions and collection expenses paid	301,085	317,487
Less reinsurance commissions received	35,656	39,139
Net	265,429	278,348

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

	(in ¥ million)	
	For the year ended March 31, 2019	For the year ended March 31, 2020
Gross provision for/(reversal of) outstanding claims (except for (b))	94,547	35,231
Less reinsurance recoverable on unpaid losses	88,838	46,249
Net (a)	5,708	(11,017)
Provision for/(reversal of) outstanding claims related to earthquakes and compulsory automobile liability insurance (b)	(3,266)	(2,567)
Total (a) + (b)	2,442	(13,585)



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, 2019	For the year ended March 31, 2020
Gross provision for/(reversal of) ordinary underwriting reserves	10,117	53,745
Less reinsurance recoverable on underwriting reserves	2,012	11,978
Net (a)	8,105	41,767
Provision for/(reversal of) refund reserves	(90,224)	(82,066)
Less reinsurance recoverable on refund reserves	(1)	-
Net (b)	(90,222)	(82,066)
Provision for/(reversal of) other underwriting reserves (c)	(16,191)	43,637
Total (a) + (b) + (c)	(98,308)	3,337

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

	(in ¥ million)	
	For the year ended March 31, 2019	For the year ended March 31, 2020
Interest on deposits and savings	944	865
Interest on receivables under resale agreements	0	0
Interest on monetary claims bought	270	211
Interest and dividends income on securities	102,711	91,363
Interest on loans	3,421	2,947
Rental income on properties	6,512	6,458
Other interest income	51	66
Total	113,912	101,912

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, 2019	For the year ended March 31, 2020
(356)	(387)

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

(in ¥ million)	
For the year ended March 31, 2019	For the year ended March 31, 2020
3,672	(2,849)

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, 2019	For the year ended March 31, 2020
Net income/(loss) per share (in ¥)	121.83	66.98
Net income/(loss) attributable to common stock (in ¥ million)	171,102	94,079
Average outstanding common shares during the year (in thousands of shares)	1,404,402	1,404,402

(Note) Since there was no potential dilution for the years ended March 31, 2019 and 2020, 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, 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.

For the year ended March 31, 2020

Description is omitted as the net loss before taxes is recorded.

6. Other extraordinary losses represent expenses related to reorganization of international business.
7. The Company has decided to dispose of shares in MS Amlin plc after acquiring subsidiaries' shares held by MS Amlin plc (currently MS Amlin Limited) and MSIG Holdings(Asia) Pte. Ltd. through in-kind dividends, and a part of the acquisitions has been completed.

As a result, income taxes decreased by ¥166,737 million due to the decrease in taxable income and recognition of deferred tax assets for deductible temporary differences arising on investments in subsidiaries.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

8. Related party transactions are as follows:

For the year ended March 31, 2019

There is no related party transactions to be disclosed.

For the year ended March 31, 2020

Category	Company name	Voting rights (%)	Relationship	Transactions	Transaction amounts (in ¥ millions)	Account	Ending balances (in ¥ millions)
Subsidiary of parent company	Mitsui Sumitomo Aioi Life Insurance Company, Limited	N/A	Secondment of employees, etc.	Company split (Note 1) Amount of assets Amount of liabilities	73,352 73,352	-	-
Subsidiary	MS Amlin Limited	100%	Concurrent position as director, etc.	Receipt of in-kind dividends (Note 2)	625,391	-	-
Subsidiary	MSIG Holdings (U.S.A), Inc.	90.87%	Concurrent position as director, etc.	Subscription of capital increase (Note 3)	100,000	-	-

(Note 1) Transaction terms and the method of deciding those terms are presented in “Consolidated Financial Statements - Notes to Consolidated Balance Sheets 10. Business combination”.

(Note 2) In-kind dividends were received as a result of acquiring shares of associates in the international business reorganization.

(Note 3) Subscription of capital increases carried out by subsidiaries.

9. “Parent company”, “Subsidiary” and “Affiliate” appearing elsewhere in the statements of income and notes thereto refer to those defined in Article 2 of the Rules of Corporate Accounting.



MITSUI SUMITOMO INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Financial Statements  
For the years ended March 31, 2019 and March 31, 2020

(With Independent Auditor's Report Thereon)

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

Tamaki Kawate  
Director, Senior Executive Officer  
Mitsui Sumitomo Insurance Company, Ltd.





## **Independent Auditor's Report**

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

### **Opinion**

We have audited the accompanying consolidated financial statements of Mitsui Sumitomo Insurance Company, Limited ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as of March 31, 2019 and 2020, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2019 and 2020, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## **Interest required to be disclosed by the Certified Public Accountants Act of Japan**

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.





Hiroyuki Yamada  
Designated Engagement Partner  
Certified Public Accountant



Ikuo Hirakuri  
Designated Engagement Partner  
Certified Public Accountant



Fumito Hirose  
Designated Engagement Partner  
Certified Public Accountant

KPMG AZSA LLC  
Tokyo Office, Japan  
June 24, 2020

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

As of March 31, 2019 and March 31, 2020

		2019	2020
		(in ¥ million)	
<u>Assets</u>			
Assets			
Cash, deposits and savings	¥	872,285	1,011,686
Receivables under resale agreements		6,999	-
Monetary claims bought		54,241	59,095
Money trusts		3,636	3,054
Securities		5,329,929	5,017,039
Loans		398,273	396,104
Tangible fixed assets:		229,539	246,652
Land		87,433	86,878
Buildings		122,227	117,940
Lease assets		-	19,352
Construction in progress		377	2,414
Other tangible fixed assets		19,500	20,067
Intangible fixed assets:		461,971	341,862
Software		30,210	56,744
Goodwill		185,491	122,281
Other intangible fixed assets		246,270	162,836
Other assets		949,857	1,001,549
Deferred tax assets		19,066	130,315
Customers' liabilities under acceptances and guarantees		31,000	24,000
Bad debt reserve		(7,777)	(11,437)
Total assets	¥	<u>8,349,024</u>	<u>8,219,924</u>

See accompanying notes to consolidated financial statements.



MITSUI SUMITOMO INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets (Continued)

	2019	2020
	(in ¥ million)	
<u>Liabilities and Net Assets</u>		
Liabilities		
Policy liabilities:		
Outstanding claims	¥ 5,070,683	5,044,540
Underwriting reserves	1,518,790	1,477,218
Bonds issued	3,551,892	3,567,322
Other liabilities	487,093	587,093
Liabilities for pension and retirement benefits	753,300	866,679
Reserve for retirement benefits for officers	145,550	144,392
Accrued bonuses for employees	403	316
Reserve for reorganization by function	18,891	18,806
Reserves under the special laws:	906	-
Reserve for price fluctuation	76,003	19,007
Deferred tax liabilities	76,003	19,007
Acceptances and guarantees	133,542	17,205
Total liabilities	<u>31,000</u>	<u>24,000</u>
Net Assets	<u>6,717,375</u>	<u>6,722,041</u>
Shareholders' equity:		
Common stock	139,595	139,595
Capital surplus	85,008	85,008
Retained earnings	602,225	655,872
Total shareholders' equity	<u>826,829</u>	<u>880,476</u>
Accumulated other comprehensive income/(loss):		
Net unrealized gains/(losses) on securities	886,477	689,218
Net deferred gains/(losses) on hedges	18,492	14,448
Foreign currency translation adjustments	(124,722)	(117,682)
Accumulated actuarial gains/(losses) on retirement benefits	(5,161)	(13,873)
Total accumulated other comprehensive income/(loss)	<u>775,086</u>	<u>572,110</u>
Non-controlling interests	29,733	45,295
Total net assets	<u>1,631,649</u>	<u>1,497,882</u>
Total liabilities and net assets	¥ <u>8,349,024</u>	<u>8,219,924</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, 2019 and March 31, 2020

	2019	2020
	(in ¥ million)	
<u>Ordinary income and expenses</u>		
Ordinary income:	¥ 2,592,607	2,518,049
Underwriting income:	2,352,555	2,301,483
Net premiums written	2,160,050	2,197,801
Deposit premiums from policyholders	55,858	52,386
Investment income on deposit premiums from policyholders	32,235	30,105
Life insurance premiums	12,285	16,943
Reversal of underwriting reserves	91,956	-
Other underwriting income	169	4,246
Investment income:	227,011	203,151
Interest and dividends income	113,087	111,295
Investment gains on trading securities	17,237	55,652
Gains on sales of securities	126,373	62,851
Gains on redemption of securities	256	863
Other investment income	2,292	2,593
Transfer of investment income on deposit premiums from policyholders	(32,235)	(30,105)
Other ordinary income:	13,040	13,415
Gains on equity method investments	2,451	2,267
Other ordinary income	10,588	11,147
Ordinary expenses:	2,408,654	2,414,602
Underwriting expenses:	2,003,202	1,974,337
Net claims paid	1,297,017	1,241,775
Loss adjustment expenses	106,293	106,406
Commissions and collection expenses	394,698	403,220
Maturity refunds to policyholders	167,736	157,089
Dividends to policyholders	118	84
Life insurance claims	109	1,958
Provision for outstanding claims	36,181	32,718
Provision for underwriting reserves	-	30,088
Other underwriting expenses	1,047	996

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income (Continued)

	2019	2020
	(in ¥ million)	
Investment expenses:	¥ 19,351	52,765
Investment losses on money trusts	171	566
Losses on sales of securities	7,209	5,809
Impairment losses on securities	4,763	22,546
Losses on redemption of securities	47	165
Losses on derivative transactions	3,234	13,352
Other investment expenses	3,924	10,325
Operating expenses and general and administrative expenses	374,224	370,509
Other ordinary expenses:	11,875	16,990
Interest expense	8,858	10,818
Provision for bad debt reserve	660	4,894
Losses on bad debts	93	124
Other ordinary expenses	2,264	1,153
Ordinary profit/(loss)	<u>183,952</u>	<u>103,447</u>
<u>Extraordinary income and losses</u>		
Extraordinary income:	12,331	71,028
Gains on sales of fixed assets	12,331	4,639
Reversal of reserves under the special laws:	-	56,996
Reversal of reserve for price fluctuation	-	56,996
Gains on step acquisitions	-	6,587
Gains on change in equity interests	-	2,804
Extraordinary losses:	8,221	178,068
Losses on sales of fixed assets	1,274	1,476
Impairment losses on fixed assets	639	173,512
Provision for reserves under the special laws:	4,190	-
Provision for reserve for price fluctuation	4,190	-
Other extraordinary losses	2,116	3,080
Income/(loss) before income taxes	<u>188,062</u>	<u>(3,593)</u>
Income taxes – current	62,432	8,981
Income taxes – deferred	(4,300)	(150,675)
Total income taxes	<u>58,132</u>	<u>(141,694)</u>
Net income/(loss)	<u>129,929</u>	<u>138,101</u>
Net income/(loss) attributable to non-controlling interests	2,156	2,667
Net income/(loss) attributable to owners of the parent	<u>¥ 127,772</u>	<u>135,433</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, 2019 and March 31, 2020

		2019	2020
		(in ¥ million)	
Net income/(loss)	¥	129,929	138,101
Other comprehensive income/(loss):			
Net unrealized gains/(losses) on securities		(145,725)	(191,614)
Net deferred gains/(losses) on hedges		(1,707)	(3,956)
Foreign currency translation adjustments		(56,369)	2,600
Actuarial gains/(losses) on retirement benefits		5,685	(8,726)
Share of other comprehensive income/(loss) of equity method investments		(7,359)	241
Total other comprehensive income/(loss)		(205,477)	(201,454)
Total comprehensive income/(loss)	¥	(75,547)	(63,353)
Allocation:			
Comprehensive income/(loss) attributable to owners of the parent	¥	(76,008)	(67,541)
Comprehensive income/(loss) attributable to non-controlling interests		460	4,188

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, 2019 and March 31, 2020

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
Cumulative effects of changes in accounting policies				-
Beginning balance (Restated)	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)
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
Cumulative effects of changes in accounting policies					-		-
Beginning balance (Restated)	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)
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 Changes in Net Assets (Continued)

For the year ended March 31, 2020

	(in ¥ million)			
	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Total shareholders' equity
Beginning balance	¥ 139,595	85,008	602,225	826,829
Cumulative effects of changes in accounting policies			(942)	(942)
Beginning balance (Restated)	139,595	85,008	601,282	825,886
Changes for the year:				
Dividends paid			(80,843)	(80,843)
Net income/(loss) attributable to owners of the parent			135,433	135,433
Changes in equity resulting from transactions with non-controlling interests				-
Net changes of items other than shareholders' equity				
Total changes for the year	-	-	54,590	54,590
Ending balance	¥ 139,595	85,008	655,872	880,476

	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	¥ 886,477	18,492	(124,722)	(5,161)	775,086	29,733	1,631,649
Cumulative effects of changes in accounting policies					-		(942)
Beginning balance (Restated)	886,477	18,492	(124,722)	(5,161)	775,086	29,733	1,630,706
Changes for the year:							
Dividends paid							(80,843)
Net income/(loss) attributable to owners of the parent							135,433
Changes in equity resulting from transactions with non-controlling interests							-
Net changes of items other than shareholders' equity	(197,259)	(4,044)	7,040	(8,712)	(202,975)	15,561	(187,413)
Total changes for the year	(197,259)	(4,044)	7,040	(8,712)	(202,975)	15,561	(132,823)
Ending balance	¥ 689,218	14,448	(117,682)	(13,873)	572,110	45,295	1,497,882

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, 2019 and March 31, 2020

	2019	2020
	(in ¥ million)	
I. Cash flows from operating activities:		
Income/(loss) before income taxes	¥ 188,062	(3,593)
Adjustments for:		
Depreciation	39,649	42,584
Impairment losses on fixed assets	639	173,512
Amortization of goodwill	13,002	11,107
Increase/(decrease) in outstanding claims	43,527	(37,898)
Increase/(decrease) in underwriting reserves	(92,419)	29,653
Increase/(decrease) in bad debt reserve	(199)	3,581
Increase/(decrease) in reserve for retirement benefits for officers	(113)	(86)
Increase/(decrease) in accrued bonuses for employees	469	(236)
Increase/(decrease) in reserve for reorganization by function	(1,354)	(906)
Increase/(decrease) in liabilities for pension and retirement benefits	(4,694)	(13,462)
Increase/(decrease) in reserve for price fluctuation	4,190	(56,996)
Interest and dividends income	(113,087)	(111,295)
Losses/(gains) on securities	(131,845)	(90,845)
Losses/(gains) on derivative transactions	3,234	13,352
Interest expense	8,858	10,818
Foreign exchange losses/(gains)	595	5,396
Losses/(gains) on disposal of tangible fixed assets	(11,262)	(3,313)
Losses/(gains) on equity method investments	(2,451)	(2,267)
Losses/(gains) on step acquisitions	-	(6,587)
Losses/(gains) on change in equity interests	-	(2,804)
Decrease/(increase) in other assets	(129,973)	(13,915)
Increase/(decrease) in other liabilities	40,227	40,783
Other, net	(2,741)	(25,610)
Subtotal	(147,684)	(39,032)
Interest and dividends received	133,065	129,107
Interest paid	(8,772)	(10,741)
Income taxes refunded/(paid)	(91,129)	(53,217)
Net cash provided by/(used in) operating activities (a)	(114,520)	26,116

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

	2019	2020
	(in ¥ million)	
II. Cash flows from investing activities:		
Net decrease/(increase) in deposits and savings	¥ 36,649	(6,867)
Purchase of monetary claims bought	(9,027)	(18,809)
Proceeds from sales and redemption of monetary claims bought	49,750	15,982
Purchase of money trusts	(3,741)	(13)
Proceeds from sales of money trusts	3,727	23
Purchase of securities	(2,627,822)	(2,840,082)
Proceeds from sales and redemption of securities	2,725,295	3,043,692
Investment in loans	(73,403)	(75,078)
Collection of loans	71,155	77,299
Net increase/(decrease) in payables under securities lending transactions	-	61,603
Other, net	8,789	7,316
Subtotal (b)	<u>181,372</u>	<u>265,066</u>
(a + b)	<u>66,851</u>	<u>291,182</u>
Acquisition of tangible fixed assets	(14,610)	(17,028)
Proceeds from sales of tangible fixed assets	14,195	6,435
Acquisition of intangible fixed assets	(42,085)	(47,569)
Acquisition of shares of subsidiaries resulting in changes in scope of consolidation	-	(9,715)
Other, net	(2,368)	(2,334)
Net cash provided by/(used in) investing activities	<u>136,503</u>	<u>194,853</u>
III. Cash flows from financing activities:		
Proceeds from borrowings	26,452	149,381
Repayments of borrowings	(45,386)	(167,648)
Issuance of bonds	99,527	99,786
Dividends paid to shareholders	(75,297)	(80,843)
Dividends paid to non-controlling interests	(1,066)	(1,688)
Purchase of shares of subsidiaries not resulting in changes in scope of consolidation	(1,615)	-
Other, net	(850)	(4,963)
Net cash provided by/(used in) financing activities	<u>1,763</u>	<u>(5,975)</u>
IV. Effect of exchange rate changes on cash and cash equivalents	<u>(11,806)</u>	<u>(864)</u>
V. Net increase/(decrease) in cash and cash equivalents	<u>11,940</u>	<u>214,130</u>
VI. Cash and cash equivalents at beginning of year	715,793	727,733
VII. Decrease in cash and cash equivalents due to the transfer of third sector long-term contracts	-	(72,975)
VIII. Cash and cash equivalents at end of year	¥ <u>727,733</u>	<u>868,888</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, 2019 and March 31, 2020

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

60 companies

Major consolidated subsidiaries are as follows:

MSIG Holdings (U.S.A.), Inc.  
MS Amlin Corporate Member Limited  
MS Amlin Underwriting Limited  
MS Amlin AG  
MS Amlin Insurance SE  
MSIG Insurance (Malaysia) Bhd.

Changes in scope of consolidation

PT. Asuransi Jiwa Sinarmas MSIG Tbk and 1 other company have been included in the scope of consolidation since the year ended March 31, 2020 as they have become the Company’s subsidiaries due to the acquisition of shares.

As RaetsAsia P&I Services Pte Ltd and 4 other companies ceased to be subsidiaries due to the completion of liquidation and other reasons, they have been excluded from the scope of consolidation during the year ended March 31, 2020.



MITSUI SUMITOMO INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

(2) Unconsolidated subsidiaries

Major unconsolidated subsidiary is as follows:

MSK Anshin Station Company, Limited

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

10 companies

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

Sumitomo Mitsui DS Asset Management Company, Limited  
Max Life Insurance Company Limited

Changes in scope of application of equity method

As PT. Asuransi Jiwa Sinarmas MSIG Tbk changed from associate to subsidiary due to the acquisition of shares, it has been excluded from the scope of application of the equity method during the year ended March 31, 2020.

As Air Centurion Insurance Services, Inc. ceased to be associate due to the sale of shares, it has been excluded from the scope of application of the equity method during the year ended March 31, 2020.

- (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 59 overseas consolidated subsidiaries 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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

Japanese Insurance Business Act)

- (i) Trading securities are valued at their year-end market prices. Cost of sales is calculated using the moving average method. For certain overseas consolidated subsidiaries, 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.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

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

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

Bad debt reserve for all loans and receivables is provided based on the assessment under the internal standards for self-assessment of assets. The assessment is performed by 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 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 the expected average remaining service period of employees at the time of occurrence.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

(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 5 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 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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

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.

6. Goodwill

Goodwill is amortized using the straight-line method over a period of 15 to 20 years. Insignificant amounts of goodwill are charged to expenses as incurred.

7. Change in accounting policy

From the year ended March 31, 2020, International Financial Reporting Standard (“IFRS”) 16 “Leases” has been adopted by overseas consolidated subsidiaries that apply IFRS. As a result, lessees generally recognize right-of-use assets and lease liabilities for all leases at the lease commencement date.

In accordance with the transitional measures of IFRS 16, the Company has adjusted retained earnings for cumulative effects of the adoption at the beginning of the year ended March 31, 2020.

The effects of this adjustment on ordinary income and income before income taxes for the year ended March 31, 2020 were immaterial. The effects of the changes on the beginning balance of the year ended March 31, 2020 were an increase in lease assets of ¥21,799 million and a decrease in other tangible fixed assets of ¥653 million among tangible fixed assets, an increase in other liabilities of ¥22,088 million and a decrease in retained earnings of ¥942 million. As for the items of Consolidated Statements of Cash Flows, net cash used in operating activities decreased by ¥4,004 million and net cash used in financing activities increased by ¥4,004 million.

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

In preparing the consolidated statements of cash flows, cash and cash equivalents constitute



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

cash on hand, readily available deposits and short-term highly liquid investments with original maturities not exceeding three months.

9. Additional information

(Consideration of the impact of COVID-19 pandemic in accounting estimates)

At present, it remains uncertain how long the COVID-19 pandemic will continue and how it will impact on the global economy. In this situation, accounting estimates, including the recoverability of deferred tax assets and the valuation of goodwill, incorporate certain assumptions with the scenario that the impact of COVID-19 pandemic will continue for a certain period of time during the year ending March 31, 2021.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED  
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Notes to Consolidated Balance Sheets

As of March 31, 2019 and March 31, 2020

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

	(in ¥ million)	
	March 31, 2019	March 31, 2020
Accumulated depreciation	301,980	316,637
Accelerated depreciation	13,985	13,593

(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, 2019 and March 31, 2020 were ¥13,985 million and ¥13,593 million, respectively.

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

	(in ¥ million)	
	March 31, 2019	March 31, 2020
Securities (Domestic stocks)	17,944	20,308
Securities (Foreign securities)	129,940	87,373
Securities (Other securities)	13,578	17,212
Total	161,463	124,894

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, 2019	March 31, 2020
Loans to borrowers in bankruptcy	-	19
Overdue loans	22	78
Loans overdue for three months or more	206	190
Restructured loans	402	314
Total	631	603

(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, 2019	March 31, 2020
Pledged assets:		
Cash, deposits and savings	3,442	2,877
Securities	358,293	438,569
Total	361,736	441,446

(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, 2019	March 31, 2020
206,394	252,295

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 ¥115,078 million and ¥112,259 million, respectively in a negative liability position as of March 31, 2019 and March 31, 2020. 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, 2019	March 31, 2020
4,593	7,259

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 Asset and Liability Management 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 index options, 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, weather derivatives and catastrophe 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  
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

(a) Market risk management

The Group maintains and operates a risk management structure taking into account the characteristics of each financial instrument in accordance with its internal policies for market risk management. In addition to monitoring of risk amount by quantifying risks using the VaR method as described above, the Company manages market risks through the assessment of potential risks that cannot be identified using the VaR method, analysis of sensitivity of existing assets to changes in interest rates, stock prices and foreign exchange rates and analysis of concentration and weakness of portfolio.

(b) Credit risk management

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

(c) Liquidity risk management

The Group maintains and operates a funding and market liquidity risk management structure in accordance with its internal policies for liquidity risk management. The Group's treasury management classifies funding needs into "ordinary" and "emergency" depending on the urgency level and oversees operation and management for the liquidity in each level, which gives the foremost consideration to the liquidity risk. The treasury management also ensures the diversification of fundraising activities to secure and maintain liquidity in various environments. The Group manages funding liquidity risks by holding a sufficient amount of cash, savings and deposits, and highly liquid securities such as government bonds, and regularly monitoring their aggregate amounts in case of unexpected events like catastrophes and the deterioration of funding liquidity arising from turmoil in the financial markets.

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

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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

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, 2019 and March 31, 2020 together with their differences. The following tables exclude financial instruments in which the fair values are not practically determinable (see Note 2).

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	-	
Held-to-maturity securities	-	-	-	
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.

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

March 31, 2020

			(in ¥ million)
	Carrying amount	Fair value	Difference
(i) Cash, deposits and savings	1,011,686	1,011,869	182
(ii) Receivables under resale agreements	-	-	-
(iii) Monetary claims bought	59,095	59,095	-
(iv) Money trusts	3,054	3,054	-
(v) Securities:			
Trading securities	872,595	872,595	-
Held-to-maturity securities	4,003	4,066	62
Investments in associates	3,616	3,088	(527)
Available-for-sale securities	3,888,658	3,888,658	-
(vi) Loans	396,104		
Bad debt reserve (*1)	(12)		
	396,092	398,557	2,465
Total assets	6,238,804	6,240,986	2,182
Bonds issued	587,093	579,264	(7,829)
Total liabilities	587,093	579,264	(7,829)
Derivative transactions (*2):			
Hedge accounting not applied	27,322	27,322	-
Hedge accounting applied	(288)	(288)	-
Total derivative transactions	27,034	27,034	-

(\*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, and a net debt in total is presented in parentheses.

(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.

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

With regard to Monetary claims bought other than CP, the price quoted by counterparty financial institutions is deemed as the fair value.

(iv) Money trusts

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

(v) 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 venders or counterparty financial institutions.

(vi) Loans

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

With regard to policy loans 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, etc.

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

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

	(in ¥ million)	
	March 31, 2019	March 31, 2020
Unlisted stocks and other assets invested in unconsolidated subsidiaries and associates	158,293	121,278
Other unlisted stocks	24,445	28,032
Unlisted investment trusts	51,250	71,097
Partnership investments comprising unlisted stocks	28,389	27,756
Total	262,377	248,165

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, 2019	March 31, 2020
Carrying amount	42,110	41,522
Fair value	113,852	120,517

(Notes)

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

10. Business combination

(1) Transaction under common control

(Transfer of third sector long-term contracts)

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 Simple Absorption-type Company Split 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.

(i) Overview of the transaction

(a) Name and description of the subject business

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

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

(b) Date of business combination

April 1, 2019

(c) 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

(d) Acquiring company name after business combination

Mitsui Sumitomo Aioi Life Insurance Company, Limited

(e) 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.

(ii) Overview of the accounting treatment applied

The Company applied "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.

(2) Business combination through acquisition

The Company acquired additional shares of PT. Asuransi Jiwa Sinarmas MSIG Tbk ("Sinarmas"), an equity method affiliate of the Company. As a result of this transaction, Sinarmas became a consolidated subsidiary.

(i) Overview of the transaction

(a) Name and description of business of the acquired company

Name: PT. Asuransi Jiwa Sinarmas MSIG Tbk

Description of the business: Life insurance business

(b) Main reasons for business combination

Indonesia's life insurance market is expected to grow further in the future therefore the Company acknowledges Sinarmas as a strategic business base and intends to expand its business in cooperation with the Sinarmas Group, which is a strategic partner as well as a shareholder of Sinarmas.



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

(c) Date of business combination

July 8, 2019 (deemed acquisition date: July 1, 2019)

(d) Legal form of business combination

Acquisition of shares

(e) Company name after the business combination

PT. Asuransi Jiwa Sinarmas MSIG Tbk

(f) Ratio of acquired voting rights

Ratio of voting rights owned by the Company immediately before the acquisition: 50 %  
Ratio of voting rights

acquired additionally by the Company on the date of business combination: 30 %

Ratio of voting rights after the acquisition: 80 %

(g) Grounds for deciding on the acquiring company

As a result of the acquisition of additional shares, the Company has gained substantial control of the acquired company.

(ii) Period of the acquired company's financial result included in the consolidated financial statements of the Company

The fiscal year end of the acquired company is December 31, which is different from that of the Company. The Company uses the financial statements as of the acquired company's latest fiscal year end for consolidation purposes since the intervening period does not exceed three months from its fiscal year end. Financial results from January 1, 2019 to June 30, 2019 were recorded as gains on equity method investments.

(iii) Acquisition cost and consideration of the acquired company

Fair value on the date of business combination of shares held by the  
Company immediately before the business combination 6.3 trillion rupiah

Consideration (Cash) for shares additionally acquired by MSI 3.8 trillion rupiah

Acquisition cost 10.1 trillion rupiah

(iv) Difference between acquisition cost and total acquisition cost of each transaction  
Gains on step acquisitions ¥6,587 million

(v) Amount of goodwill, reason for recognizing goodwill, amortization method and the period  
(a) Amount of goodwill

3.2 trillion rupiah

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

(b) Reason for recognizing goodwill

The amount of investments under the Share Acquisition Agreement exceeded the net amount of assets acquired and liabilities assumed.

(c) Amortization method and the period

Amortized on a straight-line basis over 15 years

(vi) Amount of assets acquired and liabilities assumed, together with major components, on the date of the business combination

	unit: trillion rupiah
Total assets	17.3
(Securities	11.8)
(Intangible fixed assets	2.1)
Total liabilities	8.7
(Policy liabilities	7.2)

(3) Transaction under common control

(Reorganization of international business)

On January 1, 2020, the Company reorganized its international business (“international business reorganization”) and transformed to a structure whereby international subsidiaries are placed under the Company’s direct management, along with the termination of the regional holding company framework.

(i) Overview of international business reorganization

The Company designates 15 overseas subsidiaries as directly owned subsidiaries by acquiring subsidiaries’ shares held by the regional holding companies through in-kind dividends. The Company completed the acquisition of shares of 9 companies for the year ended March 31, 2020 and plans to acquire shares of remaining 6 companies in the following years, subject to approval by relevant authorities.

Major subsidiaries for which the Company completed the acquisition are as follows:

Name of company acquired	Description of business	Date of acquisition
MS Amlin Corporate Member Limited	Non-life insurance business	January 1, 2020
MS Amlin AG	Non-life insurance business	January 1, 2020
MS Amlin Insurance SE	Non-life insurance business	January 1, 2020
MSIG Insurance (Singapore) Pte. Ltd.	Non-life insurance business	February 28, 2020

(ii) Purpose of international business reorganization

The purpose of the reorganization is to establish a system to further utilize skills and networks each group company has across regions and to accelerate decision-making speed for speedy business operations so that the Company can build future growth base and robust governance system as called for in the Medium-term Business Plan “Vision 2021” in light of environmental changes and challenges surrounding the international business.

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

(iii) Overview of the accounting treatment applied

The Company applied “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.

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

	March 31, 2019	March 31, 2020
Net assets per share (in ¥)	1,140.63	1,034.30
Non-controlling interests deducted from net assets (in ¥ million)	29,733	45,295
Outstanding common shares (in thousands)	1,404,402	1,404,402

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

For the years ended March 31, 2019 and March 31, 2020

1. Major components of business expenses are as follows:

	(in ¥ million)	
	For the year ended March 31, 2019	For the year ended March 31, 2020
Commission expenses	386,335	400,090
Salaries	175,650	172,927

(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, 2019

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

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.

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Notes to Consolidated Statements of Income (Continued)

For the year ended March 31, 2020

(in ¥ million)

Use	Category	Description	Impairment losses on fixed assets	Breakdown	
Idle real estate and real estate for sale	Land and buildings	8 properties, including an office building in Kagawa	499	Land Buildings	41 457
Others	Software	Software related to the insurance business held by overseas consolidated subsidiaries	1,059	Software	1,059
—	Goodwill, other intangible fixed assets, etc.	Lloyd's business conducted by MS Amlin plc through the affiliated company	159,233	Buildings Lease assets Other tangible fixed assets Software Goodwill Other intangible fixed assets	1,249 2,273  2,593 8,096 75,320 69,699
—	Goodwill, other intangible fixed assets, etc.	Europe direct insurance business conducted by MS Amlin plc through the affiliated company	12,720	Other tangible fixed assets Software Goodwill Other intangible fixed assets	136 862 2,202 9,517

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 their demolition has been determined, 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 or value in use. The net sales value is determined based on the appraisal value provided by qualified appraisers or the assessment of inheritance tax using roadside land prices while value in use is determined as zero.

For software related to the insurance business held by overseas consolidated subsidiaries, impairment loss is recognized for the portion where the effects of decrease in expense in future are no longer assured due to the revision of software development plans and other reasons.

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

Non-life insurance business conducted by MS Amlin plc through affiliated companies had been treated as one asset group, however along with the elimination of regional holding company and the transformation to a structure under the Company's direct management, the Lloyd's business, the European direct insurance business, and the reinsurance business were treated as individual asset groups.

As the Lloyd's business and the European direct insurance business were less profitable than expected when acquired, carrying amounts of goodwill and other intangible fixed assets were reduced to their recoverable amounts and the reduced amounts were recognized as impairment losses on fixed assets under Extraordinary losses. The recoverable amounts were measured at net sales value for buildings and lease assets, and measured at value in use of zero for other assets. The net asset value was determined based on the appraisal value provided by qualified appraisers.

MS Amlin plc changed its trade name to MS Amlin Limited as at December 3, 2019.

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.

For the year ended March 31, 2020

Other extraordinary losses represent expenses related to reorganization of international business.

4. The Company has decided to dispose of shares in MS Amlin plc after acquiring subsidiaries' shares held by MS Amlin plc (currently MS Amlin Limited) and MSIG Holdings(Asia) Pte. Ltd. through in-kind dividends, and a part of the acquisitions has been completed.

As a result, income taxes decreased by ¥166,737 million due to the decrease in taxable income and recognition of deferred tax assets for deductible temporary differences arising on investments in subsidiaries.

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

	For the year ended March 31, 2019	For the year ended March 31, 2020
Net income/(loss) attributable to owners of the parent per share (in ¥)	90.98	96.43

(Notes)

1. Since there was no potential dilution for the years ended March 31, 2019 and 2020, diluted net income/(loss) per share is not presented.

2. The basis of calculation is as follows:

	For the year ended March 31, 2019	For the year ended March 31, 2020
Net income/(loss) attributable to owners of the parent (in ¥ million)	127,772	135,433
Average outstanding common stock during the year (in thousands of shares)	1,404,402	1,404,402



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

For the years ended March 31, 2019 and March 31, 2020

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

	2019	2020
	(in ¥ million)	
Net unrealized gains/(losses) on securities:		
Gains/(losses) arising during the period	(83,163)	(231,817)
Reclassification adjustments	<u>(117,522)</u>	<u>(35,801)</u>
Before income tax effect adjustments	(200,685)	(267,619)
Income tax effects	<u>54,960</u>	<u>76,005</u>
Net unrealized gains/(losses) on securities	<u>(145,725)</u>	<u>(191,614)</u>
Net deferred gains/(losses) on hedges:		
Gains/(losses) arising during the period	2,172	(256)
Reclassification adjustments	<u>(4,895)</u>	<u>(5,138)</u>
Before income tax effect adjustments	(2,723)	(5,394)
Income tax effects	<u>1,015</u>	<u>1,437</u>
Net deferred gains/(losses) on hedges	<u>(1,707)</u>	<u>(3,956)</u>
Foreign currency translation adjustments:		
Gains/(losses) arising during the period	<u>(56,369)</u>	<u>2,600</u>
Actuarial gains/(losses) on retirement benefits:		
Gains/(losses) arising during the period	4,265	(12,491)
Reclassification adjustments	<u>2,916</u>	<u>260</u>
Before income tax effect adjustments	7,181	(12,231)
Income tax effects	<u>(1,496)</u>	<u>3,505</u>
Actuarial gains/(losses) on retirement benefits	<u>5,685</u>	<u>(8,726)</u>
Share of other comprehensive income/(loss) of equity method investments:		
Gains/(losses) arising during the period	(5,783)	(7,887)
Reclassification adjustments	<u>(1,576)</u>	<u>8,129</u>
Share of other comprehensive income/(loss) of equity method investments	<u>(7,359)</u>	<u>241</u>
Total other comprehensive income/(loss)	<u>(205,477)</u>	<u>(201,454)</u>

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

For the years ended March 31, 2019 and March 31, 2020

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

For the year ended March 31, 2020

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, 2019	Common stock	61,817	44.01	March 31, 2019	May 27, 2019
Board meeting held on November 15, 2019	Common stock	19,026	13.54	-	November 22, 2019

(2) Dividends declared effective after March 31, 2020 for which the date of record is in the year ended March 31, 2020

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 18, 2020	Common stock	51,800	Retained earnings	36.88	March 31, 2020	May 25, 2020

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

For the years ended March 31, 2019 and March 31, 2020

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

	(in ¥ million)	
	2019	2020
Cash, deposits and savings	872,285	1,011,686
Receivables under resale agreements	6,999	-
Monetary claims bought	54,241	59,095
Securities	5,329,929	5,017,039
Time deposits with original maturities of more than three months	(165,535)	(169,189)
Monetary claims bought other than cash equivalents	(49,238)	(52,132)
Securities other than cash equivalents	(5,320,949)	(4,997,612)
Cash and cash equivalents	727,733	868,888

2. Assets and liabilities decreased due to the transfer of third sector long-term contracts

For the year ended March 31, 2020

The details of assets and liabilities decreased due to the transfer of third sector long-term contracts to Mitsui Sumitomo Aioi Life Insurance Company, Limited are as follows:

	(in ¥ million)
Assets	73,352
Cash, deposits and savings	72,975
Liabilities	(73,352)
Policy liabilities	(73,352)

Cash and cash equivalents included in assets of ¥72,975 million are recognized in decrease in cash and cash equivalents due to the transfer of third sector long-term contracts.

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

For the year ended March 31, 2020

The Company acquired additional shares of PT. Asuransi Jiwa Sinarmas MSIG Tbk (“Sinarmas”), an equity method affiliate of the Company. As a result of this transaction, Sinarmas became a consolidated subsidiary of the Company. The following summarizes the recognized amount of assets acquired and liabilities assumed, and the relationship between the acquisition cost of shares and the expenditure for the acquisition (net) at the acquisition date:

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Cash Flows (Continued)

	(in ¥ million)
Securities	91,036
Intangible fixed assets	16,623
Other assets	25,657
	133,316
Goodwill	25,370
Policy liabilities	(55,916)
Other liabilities	(11,285)
Total liabilities	(67,201)
Foreign currency translation adjustments	(962)
Non-controlling interests	(13,222)
Investments accounted for using the equity method prior to the acquisition of shares	(41,725)
Gains on step acquisitions	(6,587)
Acquisition cost of Sinarmas's shares	28,987
Less: Cash and cash equivalents held at Sinarmas	19,272
Net consideration paid for acquisition of Sinarmas	9,715

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