FINANCIAL STATEMENTS

SA Reinsurance Ltd.
(A Limited Liability Company)
Fiscal Periods Ended March 31, 2019 and 2018
With Report of Independent Auditor

SA REINSURANCE LTD.
(A Limited Liability Company)
INDEX TO FINANCIAL STATEMENTS
FISCAL PERIODS ENDED MARCH 31, 2019 AND 2018

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June 14, 2019

Report of Independent Auditors

To the Board of Directors and Shareholders of SA Reinsurance Ltd.

We have audited the accompanying financial statements of SA Reinsurance Ltd., which comprise the balance sheets as of March 31, 2019 and March 31, 2018, and the related statements of operations and comprehensive income (loss), statements of changes in shareholders' equity and statements of cash flows for the years then ended.

Management's responsibility 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 the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SA Reinsurance Ltd. as of March 31, 2019 and March 31, 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

SA REINSURANCE LTD.
(A Limited Liability Company)
BALANCE SHEETS

(yen in thousands, except for share data)	March 31, 2019	March 31, 2018
Assets		
Cash and cash equivalents	**33,854,287**	32,036,282
Investments, at fair value	**21,672,983**	10,835,147
Accrued investment income	**818,846**	752,081
Amounts due from broker	**9,310,813**	10,461,073
Derivative assets	**30,702,811**	24,996,706
Reinsurance receivables	**765,346**	766,618
Other assets	**11,006**	9,561
Amounts due from related parties	**14,416**	19,025
Total Assets	**97,150,508**	79,876,493
Liabilities and Shareholders' Equity		
Liabilities		
Derivative liabilities	**2,267,817**	3,772,316
Guaranteed life withdrawal and surrender benefits	**6,238,888**	4,072,477
Guaranteed minimum accumulation benefits	**41,444,331**	31,304,244
Affiliated short-term note payable	**26,568,123**	23,967,932
Amounts due to broker	**3,580,353**	41,102
Claims payable	**31,523**	20,619
Amounts due to related parties	**99,240**	146,865
Other liabilities	**204,166**	234,075
Total Liabilities	**80,434,441**	63,559,630
Shareholders' Equity		
Common stock, 1,000 par value, 15,900,000 shares authorized, issued and fully paid	**15,900,000**	15,900,000
Retained surplus	**816,067**	416,863
Total Shareholders' Equity	**16,716,067**	16,316,863
Total Liabilities and Shareholders' Equity	**97,150,508**	79,876,493

See Notes to Financial Statements.

SA REINSURANCE LTD.

(A Limited Liability Company)

STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (LOSS)

(yen in thousands)	**For the Fiscal Periods Ended**	
	March 31, 2019	**March 31, 2018**
Revenues		
Reinsurance premium income	**9,438,820**	9,382,112
Net foreign currency gains/(losses)	**800,690**	(993,912)
Other income	**246,836**	60,086
Total Revenues	**10,486,346**	8,448,286
Benefits and Expenses		
Policyholder claims and benefits		
Policy expense/(benefit)	**12,515,763**	4,684,292
Derivative loss/(gain)	**(3,546,435)**	3,222,822
Total policyholder claims and benefits	**8,969,328**	7,907,114
Maintenance expenses	**935,286**	817,289
Other expenses	**182,528**	231,050
Total Benefits and Expenses	**10,087,142**	8,955,453
Net Income/(Loss)	**399,204**	(507,167)
Comprehensive Income/(Loss)	**399,204**	(507,167)

See Notes to Financial Statements.

SA REINSURANCE LTD.
(A Limited Liability Company)
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(yen in thousands)	For the Fiscal Periods Ended March 31, 2019	For the Fiscal Periods Ended March 31, 2018
Common stock		
Balance at beginning of period	**15,900,000**	15,900,000
Balance at end of period	**15,900,000**	15,900,000
Retained Earnings		
Balance at beginning of period	**416,863**	924,030
Net income/(loss)	**399,204**	(507,167)
Balance at end of period	**816,067**	416,863
Total Shareholders' Equity	**16,716,067**	16,316,863

See Notes to Financial Statements.

SA REINSURANCE LTD.
(A Limited Liability Company)
STATEMENTS OF CASH FLOWS

(yen in thousands)	For the Fiscal Periods Ended March 31, 2019	For the Fiscal Periods Ended March 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss)	**399,204**	(507,167)
Adjustments to reconcile net income/(loss) to net cash provided by (used in) operating activities:		
Amortization of investments	**8,852**	29,358
Net foreign currency gains	**(463,310)**	659,846
Derivative gains	**(3,546,435)**	3,222,822
Changes in operating assets and liabilities		
Accrued investment income	**(66,766)**	(43,905)
Affiliated short term note payable	**2,600,191**	1,013,352
Amounts due from broker	**1,462,033**	(765,085)
Amounts due to broker	**3,539,251**	(1,062,407)
Amounts due to related parties	**(43,016)**	42,672
Claims payable	**10,904**	(10,744)
Guaranteed life withdrawal and surrender benefits	**2,166,411**	571,517
Guaranteed minimum accumulation benefits	**10,140,087**	3,971,855
Other assets	**(1,444)**	(76)
Other liabilities	**(29,910)**	137,707
Reinsurance receivables	**1,272**	(2,653)
Net cash provided by (used in) operating activities	**16,177,324**	7,257,092
CASH FLOWS FROM INVESTING ACTIVITIES		
Net settlement on derivatives	**(3,737,178)**	(3,107,317)
Purchase of investments	**(100,571,454)**	(71,315,242)
Sales of investments	**81,274,313**	67,470,711
Maturities of investments	**8,675,000**	-
Net cash provided by (used in) investing activities	**(14,359,319)**	(6,951,848)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash provided by financing activities	**-**	-
Net increase/(decrease) in cash (1)	**1,818,005**	305,244
Cash, beginning of period	**32,036,282**	31,731,038
Cash, end of period	**33,854,287**	32,036,282

(1) Included in the net increase in cash is interest received (2019 - 98,204; 2018 - 53,036); and interest paid (2019 - 21,455; 2018 - 176,555).

See Notes to Financial Statements.

1. Summary of Significant Accounting Policies

SA Reinsurance Ltd. (the "Company" or "SA Re") was incorporated in Bermuda as an exempted company on October 29, 2009. SA Re was established by AEGON International BV ("AEGON"), a wholly owned subsidiary of AEGON N.V., and Sony Life Insurance Co., ("Sony Life") in a 50/50 joint venture to reinsure certain minimum guarantees offered on variable annuity products sold by an affiliate, AEGON Sony Life Insurance Company Ltd. ("ASLIC"). As of September 29, 2011 the Company was re-registered and licensed by the Bermuda Monetary Authority as a Class "C" Insurer under The Insurance Act 1978.

The management duties of SA Re are split evenly between Sony Life and AEGON, with equal representation at the Board and Committee levels and a representative from each shareholder as a Co-Managing Director.

During the fiscal period ended March 31, 2019, the Company entered into several new 100% indemnity reinsurance agreements with ASLIC, which included updated versions of ASLIC's guaranteed minimum accumulation benefit ("GMAB"), guaranteed lifetime withdrawal benefit ("GLWB") products, GMAB-Australian Dollar ("AUD"), GMAB-US Dollar ("USD"), GLWB-USD, and guaranteed minimum death benefit ("GMDB") products offered in Japanese Yen ("JPY"), AUD, and USD.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with United States (U.S.) generally accepted accounting principles ("GAAP"). GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets, fair value of derivative assets or liabilities, and valuation of guaranteed minimum benefits.

The accompanying financial statements ending March 31, 2019 include accounting entries to reflect the international dateline impact. The international dateline impact is due to the timing difference between the fair value reserves which are valued in Japan and the derivatives hedging of the reserves which are valued in the U.S. During March 31, 2019 and 2018, the international dateline impact increased (decreased) derivative assets by 278,394 and 147,219, and derivative liabilities by 191,859 and 28,271, respectively. For the fiscal periods ended March 31, 2019 and 2018, on the Statement of Operations and Comprehensive Income (Loss), the international dateline impact increased derivative gains by 86,535 and 118,948, respectively.

Certain prior year figures in the Statement of Cash Flows have been re-presented to conform to the current year presentation. Net cash provided by (used in) operating activities at March 31, 2018 of 7,257,092 reflects an increase of 248,267. Net cash provided by (used in) investing activities at March 31, 2018 of (6,951,848) reflects a decrease of 248,267. The changes represent the movement of the Affiliated short term note payable and Amounts due from broker line items from Cash flows from investing activities to Cash flows from operating activities.

Cash

Cash includes cash on hand and cash equivalents, which consists of cash collateral and government issuances entered into with less than 90 days to maturity. The carrying value of cash and cash equivalents approximates fair value. There are restrictions on the use of the collateral cash. See Note 1-Derivatives for further details.

Investments

The Company's investment portfolio consists of money market accounts and Japanese government bonds and notes with original maturities between six and thirty months. These investments are under the management of AEGON USA Investment Management, LLC (AUIM) and are carried at fair value. Investment income is recorded on an accrual basis. Dividends are reinvested into the funds as earned. For fiscal year ended March 31, 2019, the total investment income, investment expenses, and net investment income are 230,337, 51,437, and 178,900, respectively and are compononents of the Other income and Other expenses line items. For fiscal year ended March 31, 2018, the total investment income, investment expenses, and net investment loss are 50,848, 110,486, and (59,638), respectively and are compononents of the Other income and Other expenses line items. For fiscal years ended March 31, 2019 and 2018, net realized gains (losses) included in Net Investment Income were nil and (1,081), respectively.

The total investment income, investment expenses, and net investment income breakout for the year ended March 31, 2018 has been updated from what was reported in the prior year to more accurately reflect the breakout of those amounts. This change has no impact to the financial statements and is only applicable to the Investments footnote above.

Derivatives

The Company manages the equity risk, currency risk, and interest rate risk by using derivative financial instruments to hedge the associated risks inherent with guaranteed minimum benefit products, in particular the claim and/or revenue risks of the liability portfolio. Derivatives are financial instruments in which the value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date. The Company has entered into short futures contracts to hedge minimum guarantees on variable annuity contracts. The Company has entered into foreign currency forwards to hedge the currency exposure to global futures indices. The Company has also entered into interest rate swaps to hedge the interest rate environment. Interest rate swap agreements generally involve the exchange of fixed and floating rate interest payments, without an exchange of the underlying principal amount.

All derivatives recognized on the Balance Sheets are carried at fair value with changes in fair value recognized in the Statements of Operations and Comprehensive Income (Loss). The fair value for exchange traded derivatives, such as futures, are calculated net of the interest accrued to date and is based on quoted market prices. Net settlements on the futures occur daily. The fair value of foreign currency forwards is calculated using forward looking currency curves, whereby the calculated price is multiplied by the notional value of the contract. At the onset and at disposition, a notional exchange occurs based on the stated contract rate; however these instruments do not accrue interest. The fair value of interest rate swaps is calculated by the use of readily available swap curve data, interpolated to produce a price, which is multiplied by the outstanding notional amount. At termination of a swap, the final fair value is recorded as a derivative gain (loss), net of investment management and custody fees, in the Statements of Operations and Comprehensive Income (Loss). Interest rate swaps do accrue interest; typically no cash is exchanged at initiation.

Collateral held by brokers equal to a percentage of the total value of open futures contracts is recorded on the Balance Sheets as amounts due to/from broker.

Collateral held or pledged by brokers relating to initial margin and variation margin for cleared interest rate swaps is also recorded on the Balance Sheets as amounts due to/from broker.

At March 31, 2019 and 2018, the Company held 26,568,123 and 23,967,932, respectively, in cash collateral for interest rate swaps traded via AEGON Derivatives N.V. ("AD") as an intermediary. This collateral is recorded on the Balance Sheets in cash and cash equivalents. The payable to AD for the cash collateral held by the Company is recorded in affiliated short-term note payable.

Guaranteed Minimum Benefits

The Company has entered into a 100% indemnity reinsurance arrangement with ASLIC whereby it assumes the risk related to various guaranteed minimum benefits associated with variable annuities issued by ASLIC in Japan. The Company receives a monthly premium during the accumulation phase of the covered annuities based on a percentage of either the underlying accumulated account values or the underlying accumulated guaranteed values. The accumulation phase varies by type of living benefit guarantee.

The variable annuity contracts sold by ASLIC offer multiple different living benefit guarantee riders: 10-year GMAB, 12-year GMAB, 15-20 year GMAB, 25-year GMAB, 30-year GMAB, and starting in fiscal year 2016, 6-year GMAB-AUD, and 7-year, 8-year, 10-year, and 15-year GMAB-AUD and GMAB-USD, GLWB combined with guaranteed minimum surrender benefit ("GMSB"), GLWB without GMSB, and starting in fiscal year 2016, 1-20 year GLWB-USD. All variable annuity contracts include a GMDB and beginning in the fiscal year ended March 31, 2011, a Volatility Controlled Fund (VCF) feature. The VCF is designed to keep the overall short term realized volatility stable by adjusting asset allocations between the actively managed assets and the stability managed assets such that overall short-term realized volatility is approximately 3.5% to 7%.

The GMAB covers shortfalls between the accumulated account value and the accumulated guaranteed value at the end of the accumulation phase. The accumulated guaranteed value is a contract holder's total deposit in the case of 10-year, 12-year, and 6, 7, 8, 10, and 15-year foreign currency GMABs, the higher of the deposit or the highest accumulated account value at every 5th policy anniversary in the case of 15-year GMAB and grades from 101% - 110% of the total deposit in the case of the 16-20 year, 25-year and 30-year GMABs.

The GLWB covers the guaranteed lifetime withdrawal payments when the accumulated account value is insufficient to provide the payments. The accumulation phase lasts until the GLWB is triggered. Where the GMSB is combined with the GLWB, it covers shortfalls between accumulated account value and the accumulated guaranteed surrender value at the time a contract holder surrenders the contract.

The GMDB covers the shortfalls between the accumulated account value and the accumulated guaranteed death benefit value. The GMDB coverage ceases after accumulation phase lapses.

The GMAB and GMSB are classified as free-standing financial derivatives and are carried at fair value. The GMDB and GLWB are classified as life insurance contracts which the Company has elected to carry at fair value. Claim payments made under these contracts and changes in fair value are recorded as a component of policy benefits in the Statements of Operations and Comprehensive Income (Loss). The fair value of these guarantees are calculated as the present value of future expected payments to contract holders less the present value of assessed rider fees attributable to the guarantees. Given the complexity and long-term nature of these guarantees which are unlike instruments available in the financial markets, their fair values are determined using stochastic techniques under a variety of market return scenarios. A variety of factors are considered, including expected market rates of return, equity and interest rate volatility, credit spread, correlations of market returns, discount rates and actuarial assumptions. These assumptions are reviewed at each valuation date and updated based on historical experience and observable market data as required.

Assumed Reinsurance

The Company wrote a reinsurance contract which covers guaranteed minimum benefits associated with variable annuity contracts issued directly by ASLIC in Japan beginning on March 1, 2010. In addition, retroactive coverage was placed for the December 2009 to February 2010 policies. Reinsurance premiums assumed include premiums and fees relating to reinsurance and guaranteed benefits and are based on information provided by the cedant. The reinsurance premiums earned are based on the account values at the end of each month based upon seriatim policy information provided by the cedant. Reinsurance premiums are paid monthly over the life of the policy. Reinsurance premiums assumed amounts that are due but not yet paid are recorded as reinsurance receivables on the Balance Sheets.

Translation of Foreign Currencies

The functional currency of the Company is Japanese Yen. Monetary assets and liabilities denominated in foreign currencies are translated at year-end exchange rates. Operating transactions in foreign currencies are translated at month end rates of exchange prevailing during the year. Gains and losses resulting from foreign currency are recorded in net foreign currency gains (losses) in the Statements of Operations and Comprehensive Income (Loss).

Subsequent Events

The Financial Statements are adjusted to reflect events that occurred between the balance sheet date and the date when the Financial Statements are issued, provided they give evidence of conditions that existed at the balance sheet date. No subsequent events have been identified through June 13, 2019 that require adjustments to the financial statements.

On May 17, 2019 Aegon announced that it will sell its 50% stake in the variable annuity joint ventures in Japan to Sony Life. The details of the divestment are currently being finalized and will be subject to normal regulatory approvals for transactions of this nature. This is likely to be completed by the end of 2019.

Accounting Guidance

Future Accounting Guidance, Not Yet Adopted

ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers: Topic 606. The guidance in this update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance unless the contracts are within the scope of other standards (for example, financial instruments, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance establishes a five-step process to achieve this core principle.

The Update will be effective for the Company on April 1, 2019. The Company performed its evaluation and determined that there are no revenue streams that are within the scope of the new accounting guidance in ASC 606 and therefore, the adoption of this Update will have no impact on its Financial Statements.

ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820). The amendments in this Update improve the effectiveness of disclosures about fair value measurements required under ASC 820 for recurring and nonrecurring fair value measurements by removing, modifying and adding certain disclosures. The amendments in this Update are effective for the Company on April 1, 2020. The Company is evaluating the impact that adoption of this Update will have on its Financial Statements.

ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 requires the statement of cash flows explain the change during the period in total of cash, cash equivalents, and restricted cash. Accordingly, restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company has performed its evaluation and determined they do not have any restricted cash and therefore, the adoption of this Update will have no impact on its Financial Statements.

2. Fair Value Measurement and Fair Value Hierarchy

ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements.

In accordance with ASC 820, the Company has categorized its financial instruments into a three-level hierarchy, which is based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the Balance Sheets are categorized as follows:

- *Level 1.* Unadjusted quoted prices for identical assets or liabilities in an active market.
- *Level 2.* Quoted prices in markets that are not active or inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following.
  a) Quoted prices for similar assets or liabilities in active markets
  b) Quoted prices for identical or similar assets or liabilities in non-active markets
  c) Inputs other than quoted market prices that are observable
  d) Inputs that are derived principally from or corroborated by observable market data through correlation or other means
- *Level 3.* Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Both observable and unobservable inputs may be used to determine the fair value of positions classified in Level 3. The circumstances for using unobservable measurements includes those in which there is little, if any, market activity for the assets or liabilities. Therefore management makes assumptions about inputs a hypothetical market participant would use to value the assets or liabilities.

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis at March 31, 2019 and 2018:

	March 31, 2019			
(yen in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Investments (a)				
Money market accounts	5,621,720	-	-	**5,621,720**
Government securities	-	16,051,263	-	**16,051,263**
Total investments (a)	5,621,720	16,051,263	-	**21,672,983**
Derivatives (b)				
FX forwards	-	564,675	-	**564,675**
Swaps	-	29,956,913	-	**29,956,913**
Futures	181,223	-	-	**181,223**
Total derivatives (b)	181,223	30,521,588	-	**30,702,811**
Total assets	5,802,943	46,572,851	-	**52,375,794**
Liabilities				
GLWB and GMSB (c)	-	-	6,238,888	**6,238,888**
GMAB (c)	-	-	41,444,331	**41,444,331**
Derivatives (b)				
FX forwards	-	124,616	-	**124,616**
Swaps	-	1,730,489	-	**1,730,489**
Futures	412,712	-	-	**412,712**
Total derivatives (b)	412,712	1,855,105	-	**2,267,817**
Total liabilities	412,712	1,855,105	47,683,219	**49,951,036**

(yen in thousands)	March 31, 2018 Level 1	Level 2	Level 3	Total
Assets				
Investments (a)				
Money market accounts	8,433,028	-	-	**8,433,028**
Government treasury bills	-	2,402,119	-	**2,402,119**
Total investments (a)	8,433,028	2,402,119	-	**10,835,147**
Derivatives (b)				
FX forwards	-	1,425,407	-	**1,425,407**
Swaps	-	23,529,015	-	**23,529,015**
Futures	42,284	-	-	**42,284**
Total derivatives (b)	42,284	24,954,422	-	**24,996,706**
Total assets	8,475,312	27,356,541	-	**35,831,853**
Liabilities				
GLWB and GMSB (c)	-	-	4,072,477	**4,072,477**
GMAB (c)	-	-	31,304,244	**31,304,244**
Derivatives (b)				
FX forwards	-	230,382	-	**230,382**
Swaps	-	2,771,594	-	**2,771,594**
Futures	770,340	-	-	**770,340**
Total derivatives (b)	770,340	3,001,976	-	**3,772,316**
Total liabilities	770,340	3,001,976	35,376,721	**39,149,037**

(a) All investments are classified as Level 1 or Level 2 and are carried at fair value. At March 31, 2019, investments consisted of money market accounts and Japanese government securities.

(b) All derivatives are classified as Level 1 or Level 2 and are carried at fair value. Level 1 derivatives consist of exchange-traded futures contracts. Level 2 derivatives consist of interest rate swaps and foreign currency forwards for which the Company utilized readily accessible currency and swap curve data as quoted in the financial markets.

(c) GLWB, GMSB and GMAB reserves are calculated as the present value of future expected payments to contract holders less the present value of assessed rider fees attributable to the guarantees.

The exchange-traded futures contracts for the year ended March 31, 2018 have been reclassified to conform to the current year presentation. Previously, the exchange-traded futures contracts were classified as Level 2 assets and liabilities. Since these positions are actively traded and multipliers, closing prices, and spot rates are all observable in the market, the exchange-traded futures contracts have been reclassified as Level 1 assets and liabilities.

For the fiscal periods ended March 31, 2019 and 2018, there were no transfers between Level 1, 2 or 3.

The Company's Level 3 liabilities consist of provisions for GLWB, GMSB and GMAB. The fair value of these are calculated as the present value of future expected payments to contract holders less the present value of assessed rider fees attributable to the guarantees. Given the complexity and long-term nature of these guarantees which are unlike instruments available in financial markets, their fair values are determined using stochastic techniques under a variety of market return scenarios. A variety of factors are considered, including expected market rates of return, equity and interest rate volatility, credit spread, correlations of market returns, discount rates and actuarial assumptions. These assumptions are reviewed at each valuation date and updated based on historical experience and observable market data as required.

(Yen in thousands, except for share data)

The following tables provide a summary of the quantitative inputs and assumptions of the Company's Level 3 liabilities at March 31, 2019 and 2018:

Description	March 31, 2019 Estimated Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Liabilities				
Future policy benefits - GLWB and GMSB	6,238,888	Discounted Cash	Own credit risk	28.5 bps
		Flows	Long-term volatility	5.2% - 6.8%
			Risk Margin	10 bps
			Mortality	Footnote (a)
			Lapses	.01 - .075
Future policy benefits - GMAB	41,444,331	Discounted Cash	Own credit risk	28.5 bps
		Flows	Long-term volatility	5.2% - 6.8%
			Risk Margin	10 bps
Total liabilities	47,683,219			

Description	March 31, 2018 Estimated Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Liabilities				
Future policy benefits - GLWB and GMSB	4,072,477	Discounted Cash	Own credit risk	13.5 bps
		Flows	Long-term volatility	5.4% - 7.3%
			Risk Margin	10 bps
			Mortality	Footnote (a)
			Lapses	.01 - .075
Future policy benefits - GMAB	31,304,244	Discounted Cash	Own credit risk	13.5 bps
		Flows	Long-term volatility	5.4% - 7.3%
			Risk Margin	10 bps
Total liabilities	35,376,721			

(a) The Mortality Assumption applicable to all products including in-force business is the Japanese Abridged Life Table 2010 with 90% mortality ratio and explicit mortality improvement for male and female of 2% up to age 80 and 1% from age 90 and beyond (with linear interpolation between ages 80 and 90).

The valuation includes the following assumptions:

- Contract holder account values and guaranteed values are fixed at valuation date;
- There are no withdrawals under GMAB;
- Withdrawals equal the guaranteed payment under GLWB;
- Lapses are dynamically affected by how deep the guarantee is in-the-money;
- Future claims and assessments are discounted in their own denomination.

The following table provides a summary of the changes in fair value of the Company's Level 3 assets (liabilities), which consist of provisions for GLWB and GMSB and GMAB reserves March 31, 2019 and 2018:

	For the Fiscal Periods Ended			
	March 31, 2019		**March 31, 2018**	
(yen in thousands) **Asset (Liability)**	**GLWB and GMSB**	**GMAB**	**GLWB and GMSB**	**GMAB**
Balance at April 1	**(4,072,477)**	**(31,304,244)**	(3,500,960)	(27,332,389)
Correction to prior month reserve	**(37)**	**9**	5	-
Currency rate movement	**1,062**	**29,283**	(3,736)	(83,235)
Assumption changes (a)	**469,263**	**723,481**	(222,936)	(333,283)
Time roll-forward (b)	**13,456**	**(2,367,031)**	(26,658)	(2,311,278)
Market movement (c)	**(630,602)**	**(2,100,206)**	6,507	(1,314,798)
Economic scenario movement (d)	**(1,994,703)**	**(6,449,743)**	(358,918)	(1,278,696)
Terminations/withdrawals	**(78,071)**	**1,657,541**	(23,096)	1,372,380
Newly issued policies	**(31,245)**	**(30,727)**	(6,617)	(20,999)
Other	**84,466**	**(1,602,694)**	63,932	(1,946)
Balance at March 31	**(6,238,888)**	**(41,444,331)**	(4,072,477)	(31,304,244)

(a) Assumption changes reflect changes to the own credit spread ("OCS") and mortality assumptions. At March 31, 2019 and March 31, 2018, SARe's OCS was 28.5 basis points ("bps") and 13.5 bps, respectively, comprised of a 50/50 blend of the Sony Life OCS and the AEGON Europe OCS. At March 31, 2019, the AEGON Europe OCS was 26.1 bps and Sony Life's OCS was 30.9 bps. The Sony Life OCS is derived as the spread over the 10-year swap rate for Japanese "A" companies, based on the Japan Securities Dealers Association "JBRA10" index. The AEGON Europe OCS is based on an average of peer insurer credit default swap spreads and adjusted to approximate the credit default swap spread for "AA" companies.

(b) Time roll-forward reflects aging of the prior period inforce portfolio with all other assumptions remaining constant.

(c) Market movement reflects account value movements from prior period to current period.

(d) Economic scenario movement reflects changes in the risk neutral scenarios.

Results of the Company's sensitivity analyses are presented to show the estimated sensitivity of net income to various scenarios. For each type of market risk, the analysis shows how net income would have been affected by changes in the relevant risk variables that were reasonably possible at the reporting date. For each sensitivity test, the impact of a reasonably possible change in a single factor (or shock) is shown.

The sensitivities do not reflect what the net income for the period would have been if risk variables had been different because the analysis is based on the exposures in existence at the reporting date rather than on those that actually occurred during the year. Nor are the results of the sensitivities intended to be an accurate prediction of the Company's future income. No risk management process can clearly predict future results.

Equity Market Risk

Fluctuations in the equity markets have affected the Company's profitability and capital position in the past and may continue to do so. Equity market exposure is present in accounts related to insurance contracts of policyholders where funds are invested in equities such as variable annuities. The sensitivity analysis of net income to change in equity prices is presented in the table below. The sensitivity of net income to changes in equity markets reflects changes in the market value of the guaranteed minimum benefits.

Estimated Approximate Effect on Net Income (JPY)

	(Yen in thousands)	
Immediate Change of:	**March 31, 2019**	**March 31, 2018**
Equity Increase of 20%	**528**	91,480
Equity Decrease of 20%	**(528)**	(91,480)

The figures reported in the 20% Equity Market Risk shock for the year ended March 31, 2018 have been restated from the prior year. Previously, the amounts reported reflected shocks to the Fair Value Reserve instead of shocks to Net Income.

Underwriting Risk

The Company's earnings depend upon the extent to which actual claims experience is consistent with the assumptions used in setting the prices for products and establishing the technical liabilities and liabilities for claims. Sources of underwriting risk include policy lapses and policy claims such as mortality. Within variable annuity contracts with certain guarantee benefits, the Company is at risk if policy lapses decrease, as more contracts would remain in force until guaranteed payments are made. For mortality risk, the Company reinsures certain types of policies that are at risk if mortality increases, such as guaranteed minimum death benefits, and reinsures certain types of policies that are at risk if mortality decreases (longevity risk) such as certain annuity products. The sensitivity analysis of net income to various underwriting risks is shown in the table that follows.

Estimated Approximate Effect on Net Income (JPY)

	(Yen in thousands)	
Immediate Change of:	**March 31, 2019**	**March 31, 2018**
20% Increase in Mortality Rates	**569,395**	328,842
20% Decrease in Mortality Rates	**(883,762)**	(557,864)
20% Increase in Lapse Rates	**3,106,361**	2,966,348
20% Decrease in Lapse Rates	**(3,271,054)**	(3,147,523)

Maturity Analysis

The Company's maturity analysis of liabilities is as follows:

Maturity Analysis of Liabilities (JPY)

Liability Type	**Due Within 1 Year**	**Due Within 1 Year to 5 Years**	**Due Within 5 Years to 10 Years**
GLWB and GMSB	-	-	6,238,888,421
GMAB	-	78,991,489	41,365,339,597

SA REINSURANCE LTD.
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
FISCAL PERIODS ENDED MARCH 31, 2019 AND 2018
(Yen in thousands, except for share data)

3. Concentration of Credit Risk

March 31, 2019	**Carrying Value**	**Percentage of Shareholders' Equity**	**Credit Rating (S&P)**
Assets			
Investments			
Money market accounts	5,621,720	33.63%	A+
Government securities	16,051,263	96.02%	A
Total investments	21,672,983	129.65%	
Reinsurance receivable - ASLIC	765,346	4.58%	Not Rated
Amounts due from broker			
Citigroup Global Markets Holdings	370,795	2.22%	A+
Morgan Stanley & Company	8,940,018	53.48%	A+
Total amounts due from broker	9,310,813	55.70%	
Derivative assets			
FX Forwards - AEGON N.V.	564,675	3.38%	A-
Swaps	29,956,913	179.21%	*Various
Futures	181,223	1.08%	A+
Total derivative assets	30,702,811	183.67%	
Total assets	62,451,953	373.60%	
Liabilities			
Amounts due to broker			
Citigroup Global Markets Holdings	(204,604)	-1.22%	A+
Morgan Stanley & Company	(3,375,749)	-20.19%	A+
Total amounts due to broker	(3,580,353)	-21.42%	
Derivative liabilities			
FX forwards - AEGON N.V.	(124,616)	-0.75%	A-
Swaps	(1,730,489)	-10.35%	*Various
Futures	(412,712)	-2.47%	A+
Total derivative liabilities	(2,267,817)	-13.57%	
Affiliated short-term note payable	(26,568,123)	-158.94%	A-
Total liabilities	(32,416,293)	-193.92%	
Net Total	30,035,660	179.68%	

** See interest rate swaps table*

March 31, 2018	**Carrying Value**	**Percentage of Shareholders' Equity**	**Credit Rating (S&P)**
Assets			
Investments			
Money market accounts	8,433,028	51.68%	A+
Government treasury bills	2,402,119	14.72%	A-1
Total investments	10,835,147	66.40%	
Reinsurance receivable - ASLIC	766,618	4.70%	Not Rated
Amounts due from broker			
Citigroup Global Markets Holdings	63,982	0.39%	A+
Morgan Stanley & Company	10,397,091	63.72%	A+
Total amounts due from broker	10,461,073	64.11%	
Derivative assets			
FX Forwards - AEGON N.V.	1,425,407	8.74%	A-
Swaps	23,529,015	144.20%	*Various
Futures	42,284	0.26%	A+
Total derivative assets	24,996,706	153.20%	
Total assets	47,059,544	288.41%	
Liabilities			
Amounts due to broker			
Morgan Stanley & Company	(41,102)	-0.25%	A+
Total amounts due to broker	(41,102)	-0.25%	
Derivative liabilities			
FX forwards - AEGON N.V.	(230,382)	-1.41%	A-
Swaps	(2,771,594)	-16.99%	*Various
Futures	(770,340)	-4.72%	A-
Total derivative liabilities	(3,772,316)	-23.12%	
Affiliated short-term note payable	(23,967,932)	-146.89%	A-
Total liabilities	(27,781,350)	-170.26%	
Net Total	19,278,194	118.15%	

** See interest rate swaps table*

At March 31, 2019 and 2018, AEGON Derivatives N.V. ("AD") is the primary credit risk counterparty and intermediary with external counterparties for the Company's interest rate swaps. The following are the counterparties for the interest rate swaps:

(Yen in thousands) **March 31, 2019**	**Carrying Value**	**Notional**	**Credit Rating (S&P)**
AEGON Derivatives N.V.	25,094,376	244,992,000	A-
Citigroup Global Markets Holdings	165,382	4,538,085	A+
Morgan Stanley & Company	2,966,666	165,411,902	A+
Total Counterparties - Interest Rate Swaps	28,226,424	414,941,987	

(Yen in thousands) **March 31, 2018**	**Carrying Value**	**Notional**	**Credit Rating (S&P)**
AEGON Derivatives N.V.	21,549,329	247,792,000	A-
Citigroup Global Markets Holdings	(26,796)	638,100	A+
Morgan Stanley & Company	(765,111)	180,367,429	A+
Total Counterparties - Interest Rate Swaps	20,757,422	428,797,529	

In addition, the Company has investments in futures backed by cash due from brokers (margin account). At March 31, 2019 and 2018, amounts due from broker include margin account amounts of 5,546,536 and 6,355,582 respectively.

4. Derivatives

The Company monitors and controls its exposure to market risk (future changes in market prices may make a financial instrument less valuable) primarily through the use of total portfolio analysis of net duration levels, a monthly mark to market process and ongoing monitoring of interest rate movements. Duration analysis is a key portfolio management tool and reflects the price sensitivity of financial instruments to changes in interest rates. Derivative instruments contain market risk and are included in this monitoring process.

The Company's exposure to credit risk (the risk of loss from a default or change in the issuer's credit quality) is controlled through the establishment of individual and aggregate issue/counterparty credit limits and an ongoing credit review, approval and monitoring process.

The Company's credit exposure to derivative instruments is the risk of loss from a counterparty failing to perform according to the terms of the contract. This exposure includes settlement risk (risk that the counterparty defaults after the Company has delivered funds or securities under the terms of the contract) which results in an accounting loss and replacement cost risk (cost to replace the contract at current market rates should the counterparty default prior to the settlement date). The Company's maximum loss due to credit risk exposure (without consideration of collateral) is approximately equal to the fair value of the derivative instruments. In addition, futures contracts entered into by the Company are exchange traded, and therefore, the credit risk is limited to the exchange on which the instrument is traded.

In order to limit exposure associated with counterparty non-performance on swap agreements, the Company has entered into collateral agreements which allow it to utilize collateral pledged by counterparties (typically fixed income securities or cash) to satisfy the derivative obligation. In addition, the Company enters into master netting arrangements with these counterparties which provide that, upon default of either party, contracts in gain positions will be offset with contracts in loss positions and the net gain or loss will be received or paid, respectively.

The tables presented below summarize information on the classification and amount of the fair value of derivatives not designated as hedging instruments for accounting purposes within the Company's Consolidated Balance Sheets as of March 31, 2019 and March 31, 2018.

The notional and fair value amounts of the derivative assets (liabilities) reported in the financial statements are as follows:

	March 31, 2019		**March 31, 2018**	
(yen in thousands)	**Notional Amount**	**Asset/(Liability)**	**Notional Amount**	**Asset/(Liability)**
Swaps - interest rate	**414,941,987**	**28,226,424**	428,797,529	20,757,421
FX forwards	**111,172,246**	**440,059**	195,280,650	1,195,024

At March 31, 2019 and 2018, there was 241,994,315 and 183,806,252, respectively, notional in open futures. Net settlements on the futures occur daily.

Components of the derivative loss (gain) on the Statements of Operations and Comprehensive Income (Loss) for the fiscal periods ended are as follows:

(yen in thousands)	**March 31, 2019**	**March 31, 2018**
Gross gains		
Swaps - interest rate	**(10,714,001)**	(4,678,789)
FX forwards	**(13,527,861)**	(12,046,335)
Futures	**(12,292,363)**	(8,941,141)
Total gross gains	**(36,534,225)**	(25,666,265)
Gross losses		
Swaps - interest rate	**547,674**	1,548,507
FX forwards	**15,992,009**	13,674,564
Futures	**16,448,107**	13,666,016
Total gross losses	**32,987,790**	28,889,087
Interest Income	-	-
Derivative loss/(gain)	**(3,546,435)**	3,222,822

5. Related Party Transactions

ASLIC sells variable annuity policies in Japan, and is also owned by both Sony Life and AEGON. Premium income and policy benefits included in the Statements of Operations and Comprehensive Income (Loss) are with ASLIC. In addition, reinsurance receivables and payables included in the Balance Sheets are with ASLIC.

The Company is party to a consulting and administrative service agreement with Transamerica Life Insurance Company ("TLIC"), an indirect wholly-owned subsidiary of AEGON N.V., in which specified administrative functions are performed in connection with the operation of the Company, in consideration of reimbursement of actual costs of services rendered. During the fiscal periods ended March 31, 2019 and 2018, the Company incurred 64,394 and 46,763, respectively, in maintenance expense under this agreement.

The Company and TLIC are parties to a Secondment Agreement where TLIC seconds an employee to the Company as Co-Managing Director. During the fiscal periods ended March 31, 2019 and 2018, the Company incurred 22,518 and 22,459, respectively, in maintenance expenses related to this agreement.

In May of 2018, the Company entered into a Derivative Management Agreement (DMA) with TLIC that resulted in trading, back office services, and FX hedging being transferred from AUIM to TLIC. During the fiscal period ended March 31, 2019, the Company incurred 127,735 in expenses related to this agreement.

During the fiscal periods ended March 31, 2019 and 2018, the Company received 14,416 and nil, respectively, in settlement payments from TLIC as a result of trade errors. Operational errors were made in the execution of certain derivatives trades which unfavorably impacted the Company. As a result, TLIC reimbursed the Company for these trade errors. These payments were recorded in other income in the Statements of Operations and Comprehensive Income (Loss).

The Company and Sony Life are parties to a Secondment Agreement where Sony Life seconds an employee to the Company as Co-Managing Director. During the fiscal periods ended March 31, 2019 and 2018, the Company incurred 22,862 and 23,898, respectively, in maintenance expenses related to this agreement.

AUIM, an indirect wholly-owned subsidiary of AEGON N.V., acts as a discretionary investment manager under investment management agreements with the Company. During the fiscal periods ended March 31, 2019 and 2018, the Company incurred 51,903 and 180,273 respectively, of investment management fees and maintenance expense under this agreement.

The Company is party to a consulting and administrative service agreement with Transamerica (Bermuda) Services Center, Ltd. ("BSC"), an indirect wholly-owned subsidiary of AEGON N.V., in which specified managing, consulting and advisory functions are performed in connection with the operation of the Company, in consideration of reimbursement of actual costs of services rendered and where appropriate, a mark-up. During the fiscal periods ended March 31, 2019 and 2018, the Company incurred 49,712 and 26,790, respectively, in maintenance expense under this agreement.

The Company is party to a consulting and administrative service agreement with AEGON Asia B.V. ("AEGON Asia"), an indirect wholly-owned subsidiary of AEGON N.V., in which specified internal audit and regulatory compliance services are performed in connection with the operation of the Company, in consideration of reimbursement of actual costs of services rendered. During the fiscal periods ended March 31, 2019 and 2018, the Company incurred 1,881 and 2,191, respectively, in maintenance expense under this agreement.

The Company is a party to an International Swap Dealers Association ("ISDA") agreement with AEGON Derivatives N.V. ("AD"), an indirect wholly-owned subsidiary of AEGON N.V. AD acts as a discretionary investment manager under investment management agreements with the Company. At March 31, 2019 and 2018, respectively, payables to AD in the amount of 26,568,123 and 23,967,932 were included in the Balance Sheets.

6. Shareholders' Equity

No new shares were issued during fiscal year ended March 31, 2019. As of March 31, 2019 and 2018, authorized share capital of the Company was 15,900,000 divided into 15,900,000 shares and 15,900,000 divided into 15,900,000 shares, respectively, of par value 1,000 each. The shares are allotted equally between Sony Life (7,950,000) and AEGON B.V. (7,950,000) and have been paid up for cash.

7. Taxation

At the present time, no income, profit, or capital gains taxes are levied in Bermuda and, accordingly, no provisions for such taxes has been recorded by the Company. In the event that such taxes are levied, the Company has received an undertaking from the Bermuda Government exempting it from all such taxes until March 2035.

The Company has analyzed all material tax positions under the guidance of ASC 740, Income Taxes, related to the accounting for uncertainty in income tax, and determined there were no tax benefits or liabilities, which should be recognized at March 31, 2019 and 2018. The Company believes its transfer pricing methodologies are appropriate and further that the Company conducts its affairs such that it is not resident in the U.S. or any country other than Bermuda. As such, the Company believes it has no U.S. or other tax liability. However, there is no assurance that such tax liabilities will not arise in the future.

8. Commitments and Contingencies

At March 31, 2019, the Company had two revolving credit agreements in place totaling 18,500,000, both of which are redeemable on demand. The agreements were as follows: Sony Life total of 9,250,000; and AEGON N.V. total of 9,250,000.

At March 31, 2018, the Company had two revolving credit agreements in place totaling 18,500,000, both of which are redeemable on demand. The agreements were as follows: Sony Life total of 9,250,000; and AEGON N.V. total of 9,250,000.

During the fiscal periods ended March 31, 2019 and 2018, neither revolving credit agreements were accessed due to additional capital needs.

The Company is party to a guarantee agreement with Sony Life. During the fiscal periods ended March 31, 2019 and 2018, the Company incurred 27,750 and 27,750, respectively, in guarantee fees related to this agreement. In addition, the Company is party to a guarantee agreement with AEGON N.V. During the fiscal periods ended March 31, 2019 and 2018, the Company incurred 27,750 and 27,750, respectively, in guarantee fees related to this agreement. Guarantee fees attributable to these agreements are included in maintenance expenses.

9. Statutory Requirements

The Company is registered under The Insurance Act 1978 (Bermuda), amendments thereto and The Insurance Account Rules 2016 (the “Act”) as a Class C insurer. The Act requires the Company to meet a Minimum Margin of Solvency of 1,445,777 and 1,198,147 for the fiscal periods ended March 31, 2019 and 2018, respectively. The Act also requires the Company to meet an Enhanced Capital Requirement of 2,131,201 and 1,741,218 for the fiscal periods ended March 31, 2019 and 2018, respectively The Company has satisfied these requirements for the fiscal periods ended March 31, 2019 and 2018.