FY2018 CONSOLIDATED BALANCE SHEET (As of March 31, 2019)

(Yen in millions)

Item	Amount	Item	Amount
(Assets)		(Liabilities)	
Cash, deposits and savings	**1,474,306**	**Policy liabilities:**	**17,637,713**
Receivables under resale agreements	**472,377**	Outstanding claims	2,222,637
Monetary claims bought	**97,241**	Underwriting reserves	15,415,076
Money trusts	**1,544,406**	**Bonds issued**	**659,093**
Investments in securities	**16,061,871**	**Other liabilities**	**1,490,882**
Loans	**903,006**	**Liabilities for pension and retirement benefits**	**176,550**
Tangible fixed assets	**463,356**	**Reserve for retirement benefits for officers**	**414**
Land	231,671	**Accrued bonuses for employees**	**27,788**
Buildings	188,947	**Reserve for reorganization by function**	**6,498**
Lease assets	2,032	**Reserves under the special laws:**	**173,248**
Construction in progress	6,746	Reserve for price fluctuation	173,248
Other tangible fixed assets	33,959	**Deferred tax liabilities**	**146,802**
Intangible fixed assets:	**545,450**	**Acceptances and guarantees**	**35,500**
Software	64,664	**Total liabilities**	**20,354,492**
Goodwill	203,423	(Net Assets)	
Lease assets	206	**Common stock**	**100,000**
Other intangible fixed assets	277,155	**Capital surplus**	**553,168**
Other assets	**1,454,825**	**Retained earnings**	**962,385**
Assets for retirement benefits	**30,075**	**Treasury stock**	**(32,539)**
Deferred tax assets	**59,317**	**Total shareholders' equity**	**1,583,013**
Customers' liabilities under acceptances and guarantees	**35,500**	**Net unrealized gains/(losses) on investments in securities**	**1,273,881**
Bad debt reserve	**(9,195)**	**Net deferred gains/(losses) on hedges**	**25,168**
		Foreign currency translation adjustments	**(135,992)**
		Accumulated actuarial gains/(losses) on retirement benefits	**4,448**
		Total accumulated other comprehensive income/(loss)	**1,167,505**
		Stock acquisition rights	**785**
		Non-controlling interests	**26,743**
		Total net assets	**2,778,047**
Total assets	**23,132,539**	**Total liabilities and net assets**	**23,132,539**

FY2018 CONSOLIDATED STATEMENT OF INCOME

(from: April 1, 2018 to: March 31, 2019)

(Yen in millions)

Item	Amount	Item	Amount
Ordinary income	**5,500,438**	**Extraordinary profit**	**17,069**
Underwriting income:	**4,918,626**	**Gains on sales of fixed assets**	**13,069**
Net premiums written	3,497,572	**Other extraordinary income**	**4,000**
Deposit premiums from policyholders	80,235	**Extraordinary loss**	**28,075**
Investment income on deposit premiums from policyholders	42,406	**Losses on sales of fixed assets**	**2,695**
Life insurance premiums	1,286,864	**Impairment losses on fixed assets**	**2,936**
Other underwriting income	11,547	**Provision for reserves under the special laws**	**20,320**
Investment income:	**561,169**	Provision for reserve for price fluctuation	20,320
Interest and dividends income	304,142	**Losses on compression of real estates**	**5**
Investment gains on money trusts	75,461	**Other extraordinary losses**	**2,116**
Investment gains on trading securities	17,237	**Income/ (loss) before income taxes**	**279,842**
Gains on sales of securities	161,608	**Income taxes - current**	**88,614**
Gains on redemption of securities	371	**Income taxes - deferred**	**(3,154)**
Investment gains on separate accounts	43,162	**Total income taxes**	**85,460**
Other investment income	1,593	**Net income/ (loss)**	**194,382**
Transfer of investment income on deposit premiums from policyholders	(42,406)	**Net income /(loss) attributable to non-controlling interests**	**1,676**
Other ordinary income	**20,642**	**Net income/ (loss) attributable to owners of the parent**	**192,705**
Gains on equity method investments	3,751		
Other ordinary income	16,890		
Ordinary expenses	**5,209,590**		
Underwriting expenses:	**4,406,840**		
Net claims paid	2,132,155		
Loss adjustment expenses	175,703		
Commissions and collection expenses	705,189		
Maturity refunds to policyholders	232,073		
Dividends to policyholders	149		
Life insurance claims	395,989		
Provision for outstanding claims	60,981		
Provision for underwriting reserves	700,502		
Other underwriting expenses	4,096		
Investment expenses:	**104,806**		
Investment losses on money trusts	171		
Losses on sales of securities	17,389		
Impairment losses on securities	9,089		
Losses on redemption of securities	50		
Losses on derivative transactions	9,331		
Other investment expenses	68,775		
Operating expenses and general and administrative expenses	**680,910**		
Other ordinary expenses:	**17,032**		
Interest expense	10,960		
Provision for bad debt reserve	696		
Loss on bad debts	181		
Other ordinary expenses	5,194		
Ordinary income	**290,847**		

FY2018 CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(from: April 1, 2018 to: March 31, 2019)

(Yen in millions)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity
Beginning balance	100,000	554,320	849,044	(2,599)	1,500,765
Changes for the year:					
Dividends paid			(79,367)		(79,367)
Net income/ (loss) attributable to owners of the parent			192,705		192,705
Repurchase of treasury stock				(30,029)	(30,029)
Disposal of treasury stock		5		88	94
Changes in equity resulted from increase in capital of consolidated subsidiaries			1		1
Changes in the parent's ownership interests in subsidiaries due to transactions with non-controlling interests		(1,157)			(1,157)
Net changes of items other than shareholders' equity					
Total changes for the year	-	(1,151)	113,340	(29,940)	82,248
Ending balance	100,000	553,168	962,385	(32,539)	1,583,013

	Accumulated other comprehensive income					Stock acquisition rights	Non-controlling interests	Total net assets
	Net unrealized gains/ (losses) on investments in securities	Net deferred gains/ (losses) on hedges	Foreign currency translation adjustments	Accumulated actuarial gains/ (losses) on retirement benefits	Total accumulated other comprehensive income			
Beginning balance	1,487,258	20,043	(66,274)	(679)	1,440,346	566	26,709	2,968,387
Changes for the year:								
Dividends paid								(79,367)
Net income/ (loss) attributable to owners of the parent								192,705
Repurchase of treasury stock								(30,029)
Disposal of treasury stock								94
Changes in equity resulted from increase in capital of consolidated subsidiaries								1
Changes in the parent's ownership interests in subsidiaries due to transactions with non-controlling interests								(1,157)
Net changes of items other than shareholders' equity	(213,376)	5,125	(69,718)	5,127	(272,841)	218	33	(272,588)
Total changes for the year	(213,376)	5,125	(69,718)	5,127	(272,841)	218	33	(190,340)
Ending balance	1,273,881	25,168	(135,992)	4,448	1,167,505	785	26,743	2,778,047

CONSOLIDATED EXPLANATORY NOTES

(Significant Accounting Policies)

The Company's consolidated financial statements are prepared in conformity with the Corporate Accounting Regulations and the Ordinance for Enforcement of Insurance Business Act pursuant to the provisions of the Article 118 of the said Regulations. The definitions of subsidiary and affiliated company are based on Article 2 of the Corporate Accounting Regulations.

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 90 companies

Major consolidated subsidiaries are as follows:

Mitsui Sumitomo Insurance Co., Ltd. ("MSI")
Aioi Nissay Dowa Insurance Co., Ltd. ("ADI")
Mitsui Sumitomo Aioi Life Insurance Co., Ltd. ("MSAL")
Mitsui Sumitomo Primary Life Insurance Co., Ltd. ("MSPL")
MSIG Holdings (Americas), Inc.
MS Amlin plc
MSIG Insurance (Malaysia) Bhd.

Changes in scope of consolidation

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

DRD LLP and three other companies have been excluded from the scope of consolidation during the year ended March 31, 2019 as its liquidation has been completed.

(2) Unconsolidated subsidiaries

Major unconsolidated subsidiaries are as follows:

ANSHIN DIAL Co., Ltd.
MS&AD Systems Co., Ltd.

Certain subsidiaries including the above subsidiaries are not consolidated, as they are not considered to affect, in all material aspects, the consolidated financial conditions and business performance, in view of the size of their total assets, ordinary income, net income and retained earnings attributable to the Company.

2. Application of equity method

(1) Number of associates accounted for under the equity method

13 companies

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

Sumitomo Mitsui Asset Management Company, Limited

ReAssure Jersey One Limited

Changes in scope of application of equity method

- Ceylinco Insurance PLC has become equity method affiliates during the year ended March 31, 2019 due to the Company's acquisition of shares.
- Arena Holdings Limited and two other companies have been excluded from the scope of application of the equity method during the year ended March 31, 2019 due to sale of its shares.

(2) Other affiliates, including unconsolidated subsidiaries and associates (e.g. ANSHIN DIAL Co., Ltd. and Zenkankyo Small Amount and Short Term Insurance Holdings, Ltd.), are stated at cost as their effects on consolidated net income and retained earnings are not considered material, individually and in aggregate.

(3) The Company holds 29.9% of the voting rights of Japan Earthquake Reinsurance Co., Ltd. ("Japan Earthquake Re") through MSI and ADI. However, Japan Earthquake Re is not included in the affiliates since the Company does not have the ability to exercise significant influence over operating and financial decisions of Japan Earthquake Re in view of its public nature.

3. Fiscal year of consolidated subsidiaries

The fiscal year end of certain consolidated subsidiaries, including MS Amlin plc and 81 other companies, is December 31, which is different from that of the Company. The Company uses the financial statements as of their latest fiscal year end for consolidation purposes since the intervening period does not exceed three months from the Company's fiscal year end.

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

4. Accounting policies

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

(i) Trading securities are valued at their year-end market prices. Cost of sales is calculated using the moving average method. For 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) Debt securities and money trusts earmarked for underwriting reserves are valued at amortized cost determined by the moving average method in accordance with Industry Audit Committee Report No. 21 "Temporary Treatment of Accounting and Auditing Concerning Debt Securities Earmarked for Underwriting Reserve in the Insurance Industry" (issued by the Japanese Institute of Certified Public Accountants on November 16, 2000).

A summary of the risk management policy for debt securities and money trusts earmarked for underwriting reserves is as follows:

In order to effectively manage risks of variability in interest rates related to assets and liabilities, MSAL establishes subgroups of "individual insurance" that meet certain criteria for each type of insurance and investment policy and applies the investment policy and cash allocation policy reflecting their characteristics. In addition, MSAL periodically assesses whether the durations of the debt securities earmarked for underwriting reserves fall within a certain range from those of the underwriting reserves in each subgroup.

In order to effectively manage risks of variability in interest rates related to assets and liabilities, MSPL establishes subgroups of "individual insurance and individual annuities" that meet certain criteria for each currency and applies the investment policy and cash allocation policy reflecting their characteristics. In addition, MSPL periodically assesses whether the durations of the debt securities earmarked for underwriting reserves fall within a certain range from those of the underwriting reserves in each subgroup.

(v) 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. For foreign currency bonds held by certain consolidated subsidiaries, changes in fair values due to fluctuations in foreign exchange rates are reported in net unrealized gains and losses in net assets, while remaining changes are reported as foreign exchange gains and losses in the consolidated financial statement of income. Cost of sales is calculated by the moving average method.

(vi) Available-for-sale securities without practically determinable fair value are valued at cost using the moving average method.

(vii) Money trusts which are specifically managed for the Company and its domestic consolidated subsidiaries for trading purposes are valued at their year-end market prices.

Money trusts which are specifically managed for the Company and its domestic consolidated subsidiaries, other than money trusts held for trading purposes, money trusts held to maturity and money trusts earmarked for underwriting reserves, 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 domestic consolidated insurance subsidiaries, bad debt reserve is established under the internal standards for self-assessment of assets and the policy for write-off and provision.

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

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

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

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

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

For overseas consolidated subsidiaries, bad debt reserve is established based on the assessment of collectability of individual receivables.

(ii) Reserve for retirement benefits for officers

Reserve for retirement benefits that covers the cost for services rendered by officers and operating officers of MSI and MSAL, the consolidates subsidiaries, 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) for officers and operating officers of MSI and MSAL.

(iii) Accrued bonuses for employees

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

(iv) Reserve for reorganization by function

Reserve for reorganization by function is established based on the estimated costs to be incurred in the future associated with the reorganization by function at domestic consolidated insurance subsidiaries of the Company.

(v) Reserve for price fluctuation

For the domestic consolidated insurance subsidiaries, the reserve for price fluctuation is recognized under Article 115 of the Insurance Business Act to provide for possible losses arising from price fluctuation of investment assets such as equity securities.

(5) Accounting for retirement benefits

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

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

(ii) Accounting for actuarial gains and losses

Actuarial gains and losses are amortized, commencing from the following year, using the straight-line method over a certain number of years (primarily 10 to 11 years) that do not exceed the expected average remaining service period of employees at the time of occurrence.

(6) Translation of foreign currency assets and liabilities

Foreign currency monetary assets and liabilities of the Company are translated into Japanese yen using the spot exchange rate prevailing at the year-end. The foreign exchange gains and losses resulting from the translation are recognized in earnings. Foreign currency assets and liabilities of 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 major domestic consolidated subsidiaries are not included in income or expenses, except for those relating to Loss adjustment expenses and Operating expenses and general and administrative expenses incurred by the domestic consolidated non-life insurance subsidiaries. Consumption taxes excluded from income and expenses are recorded at the net amount on the balance sheet.

Non-deductible consumption taxes are recognized as expenses for the period, except for those relating to the purchase of depreciable fixed assets which are not charged to expenses but deferred as Other assets and amortized over a period of five years on a straight-line basis.

(8) Hedge accounting

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

For certain domestic consolidated insurance subsidiaries, gains and losses on equity forward contracts used for hedging risks of variability in the fair value of investments in equity securities are accounted for under the fair value hedge method. Gains and losses on currency swap contracts and certain foreign exchange forward contracts used for hedging risks of variability in foreign exchange rates on foreign currency assets are accounted for under the deferred hedge method, the fair value hedge method or the allocation method. Gains and losses on currency swap contracts used for hedging risks of variability in foreign exchange rates on foreign currency bonds issued by MSI 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 currency risks and interest rate risks using the allocation method and the exceptional method, respectively.

Hedge effectiveness is assessed quarterly by comparing cumulative fluctuations in fair value or cash flows of the hedged items and hedging instruments for the periods from the respective start dates of the hedges to the assessment dates. When the hedged items and the hedging instruments are highly and clearly interrelated, when the interest rate swap transactions meet the criteria for application of the exceptional method, or when the interest rate and currency swap contracts meet the criteria for application of the integrated method, hedge effectiveness is not assessed.

Certain interest rate swap contracts used for the ALM (Asset and Liability Management) to ensure adequate control of the risks of interest rate variability are accounted for under the deferred hedge method and assessed for hedge effectiveness in accordance with the Industry Audit Committee Report No. 26, "Accounting and Auditing Treatment of Application of the Accounting Standard for Financial Instruments in the Insurance Industry" (issued by the Japanese Institute of Certified Public Accountants on September 3, 2002). The hedge effectiveness of interest rate swaps used for the ALM is evaluated on a portfolio basis, based on whether upward and downward movements in value of the hedged items and the hedging instruments offset each other within a certain range, in respect to changes in the interest rates.

5. Goodwill

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

(Consolidated Balance Sheet)

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

(Yen in millions)

	March 31, 2019
Accumulated depreciation	374,923
Accelerated depreciation	14,002

(Note) The amount of compressed bookkeeping deducted from the acquisition price by receiving government subsidies, etc. was five million yen.

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

(Yen in millions)

	March 31, 2019
Investments in securities (Domestic stocks)	24,276
Investments in securities (Foreign securities)	242,644
Investments in securities (Other securities)	13,578

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

(Yen in millions)

	March 31, 2019
Loans to borrowers in bankruptcy	0
Overdue loans	204
Loans overdue for three months or more	345
Restructured loans	1,295
Total	1,845

(Notes)

(1) 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, Item 3, sub-items (a)-(e) (Maximum Amount of Bad Debt Losses) or Item 4 of the Corporation Tax Act Enforcement Ordinance (Cabinet Order No. 97, 1965).

(2) 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.

(3) 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.

(4) Restructured loans represent those which have been granted favorable terms for the benefit of the debtors, such as interest exemption or reduction, a grace period for interest payments, a grace period for principal repayments or forgiveness of debts for the purpose of the restructuring of, or support to the debtors in financial difficulty. The loans to borrowers in bankruptcy, overdue loans and loans overdue for three months or more are excluded from this category.

4. The amounts of pledged assets and corresponding debt obligations are as follows:

(Yen in millions)

	March 31, 2019
Pledged assets:	
Investments in securities	806,098
Cash, deposits and savings	28,918
Money trusts	2,283

(Note) The amounts in the above table primarily consist of collateral assets required for payables under repurchase agreements of 468,782 million yen included in Other liabilities, for international operations and for Real Time Gross Settlement of the current account with the Bank of Japan.

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

(Yen in millions)

March 31, 2019
380,429

6. The amounts of assets received as collateral under loan agreements or repurchase agreements which the Company has the right to sell or repledge are as follows:

(Yen in millions)

	March 31, 2019
Securities	296,885
Commercial papers	-

(Note) All securities and commercial papers in the above table have not been resold or repledged, and are held by the Company and its subsidiaries.

7. The amounts of assets and liabilities in separate accounts under Article 118 of the Insurance Business Act are as follows:

(Yen in millions)

March 31, 2019
2,298,979

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

MSI provides guarantees on transactions conducted by a limited partnership entity. Aggregate net present value of these transactions was 115,078 million yen in a negative liability position as of March 31, 2019. This amount was not included in Customers' liabilities under acceptances and guarantees or Acceptances and guarantees since there was no substantial exposure.

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

(Yen in millions)

March 31, 2019
7,650

10. Information on financial instruments

(1) Qualitative information on financial instruments

(i) Policy on financial instruments

The Group applies Asset and Liability Management (ALM) policies to maintain stability of investment returns, safety of assets and sufficient liquidity under an appropriate risk management framework to attain the sustainable growth of the net asset value. In addition, the Group is exposed to investment risks such as market risks and credit risks, and manages those risks in accordance with the risk management policies of the Group and each group company.

The Group's cash inflows, which mainly arise from insurance operations and investment activities, are affected by changes in external environment such as occurrences of natural disasters and changes in financial market conditions. In order to enhance efficiency of funds operations and strengthen financial capacity under such changing conditions, the Group undertakes to raise funds through issuance of long-term or short-term corporate bonds or other financing methods as the needs arise.

(ii) Details of financial instruments and associated risks

The Group's financial assets mainly consist of securities including domestic bonds, domestic stocks and foreign securities, loans and other financial instruments. Risks pertaining to investments include market risks, credit risks, market liquidity risks and other risks. Market risks arise from fluctuations in interest rates, stock prices, foreign exchange rates and other market indicators. Credit risks arise from deterioration in the financial condition of security issuers and counterparties of loans. Market liquidity risks represent the risks that investment assets are forced to be sold at extremely unfavorable prices under turmoil in the financial markets.

The Group utilizes derivative transactions represented by interest rate swaps, interest rate options, bond future contracts, equity index options, equity index future contracts, equity forward contracts, foreign exchange forward contracts, currency swaps, currency options, and interest rate and currency swaps for the purpose of hedging risks such as fluctuations in interest rates, stock prices and foreign exchange rates. In addition, the Group utilizes credit derivatives and weather derivatives in order to generate investment returns with consideration given to the associated risks.

For details of derivative transactions to which hedge accounting is applied, please refer to "Significant Accounting Policies, 4. Accounting policies, (8) Hedge accounting."

Derivative transactions involve risks associated with fluctuations in fair value of derivative financial instruments, risks of nonperformance resulting from insolvency of counterparties and market liquidity risks. Derivative transactions utilized by the Group are also exposed to these risks. However, market risks associated with derivative transactions utilized for the purpose of hedging are mitigated, as changes in the fair value of hedged items and hedging instruments offset each other. In order to mitigate credit risks arising from the nonperformance of counterparties, most of the Group's derivative transactions are executed only with selected counterparties of high credit quality and diversified amongst various counterparties. Furthermore, under Credit Support Annex (CSA) the Group obtains collateral from counterparties.

(iii) Risk management structure relating to financial instruments

The Group manages risks in accordance with the basic policy for risk management and internal policies for asset management risks, which stipulate the definition of risks and management method established by the Board of Directors. At major domestic consolidated insurance subsidiaries, the trading department is segregated from the back-office and risk management departments and maintains a structure which enables to exercise organizational checks and balances on a daily basis. The risk management department assesses, analyzes and manages risks related to financial instruments by quantifying market and credit risks using the VaR (Value-at-Risk) method and risk limit management based on asset and liability position, and regularly reports the results to the Board of Directors.

(a) Market risk management

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

(b) Credit risk management

The Group maintains and operates a risk management structure in accordance with its internal policies for credit risk management. For securities and derivative transactions at major domestic consolidated insurance subsidiaries, 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. For loans at MSI, ADI and MSPL, 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.

(c) Liquidity risk management

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

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

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

(2) Supplementary information on fair value of financial instruments

The following table summarizes the carrying amounts on the consolidated balance sheets and the fair values of financial instruments as of March 31, 2019. The following table excludes financial instruments in which the fair values are not practically determinable (see Note 2).

(Yen in millions)

	Carrying amount	Fair value	Difference
(i) Cash, deposits and savings	1,474,306	1,475,182	875
(ii) Receivables under resale agreements	472,377	472,377	-
(iii) Monetary claims bought	97,241	97,241	-
(iv) Money trusts	1,544,406	1,544,406	-
(v) Investments in securities:			
Trading securities	3,148,489	3,148,489	-
Held-to-maturity securities	1,056,044	1,286,289	230,244
Debt securities earmarked for underwriting reserves	2,363,311	2,525,355	162,044
Stocks in subsidiaries and associates	3,170	4,013	842
Available-for-sale securities	9,040,271	9,040,271	-
(vi) Loans	903,006		
Bad debt reserve (*1)	(98)		
	902,907	925,994	23,086
Total assets	20,102,527	20,519,621	417,094
Bonds issued	659,093	676,879	17,785
Total liabilities	659,093	676,879	17,785
Derivative transactions (*2):			
Hedge accounting not applied	17,426	17,426	-
Hedge accounting applied	2,664	2,664	-
Total derivative transactions	20,090	20,090	-

(*1) Bad debt reserve for loans is deducted from the carrying amount.

(*2) Derivative assets and liabilities included in Other assets and Other liabilities, are presented on a net basis. Debits and credits arising from derivative transactions are netted.

(Note 1) Determination of fair value of financial instruments

Assets

(i) Cash, deposits and savings

With regard to deposits and savings, the fair value is measured at the present value of the estimated future cash flows discounted at interest rates applicable to the same type of new deposits and savings based on duration. With regard to deposits and savings without fixed maturities, and short-term deposits and savings, the book value is deemed as the fair value due to their demand feature or short term duration.

(ii) Receivables under resale agreements

With regard to Receivables under resale agreements, the book value approximates the fair value since they are scheduled to be settled in a short period of time.

(iii) Monetary claims bought

With regard to commercial papers (CP), the price quoted by exchanges or counterparty financial institutions is deemed as the fair value. With regard to certain CP, the book value approximates the fair value since they are scheduled to be settled in a short period of time. With regard to Monetary claims bought other than CP, the price quoted by counterparty financial institutions is deemed as the fair value.

(iv) Money trusts

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

(v) Investments in securities

The fair value of equity securities is determined based on the quoted market price and the fair value of bonds is determined based on the price quoted by exchanges, independent price venders or counterparty financial institutions.

(vi) Loans

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

With regard to policy loans, which do not have contractual maturities, as the loan amount is limited to the surrender value, the carrying amount approximates the fair value, considering their estimated repayment periods and interest rates.

With regard to loans to debtors that are legally or substantially bankrupt and loans to doubtful debtors, the carrying amount less bad debt reserve is deemed as the fair value, because the bad debt reserve is determined based on the present value of the estimated future cash flows or the value of the collateral and the amount collectible through guarantees.

Liabilities

Bonds issued

With regard to Bonds issued, the fair value is determined based on "Reference Statistical Prices for OTC Bond Transactions" published by the Japan Securities Dealers Association or prices quoted by independent price vendors or counterparty financial institutions.

Derivative transactions

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

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

(Yen in millions)

	March 31, 2019
Unlisted stocks and other assets invested in unconsolidated subsidiaries and associates	277,328
Other unlisted stocks	86,042
Unlisted investment trusts	51,633
Partnership investments comprised of unlisted stocks	35,578
Total	450,583

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 and difficulties in reasonably estimating future cash flows.

11. Certain consolidated subsidiaries own investment properties in Tokyo and other areas. The carrying amounts, changes in carrying amounts and fair value of the investment properties are as follows:

(Yen in millions)

	March 31, 2019
Carrying amount	74,996
Fair value	135,321

(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.

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

	March 31, 2019
Net assets per share (in Yen)	4,712.11
Stock acquisition rights deducted from net assets (Yen in millions)	785
Non-controlling interests deducted from net assets (Yen in millions)	26,743
Outstanding common shares (in thousands of shares)	583,711

13. The following are events that occurred after the end of the fiscal year ended March 31, 2019 which could have significant effects on assets or profits/losses of subsequent fiscal years.

Transaction under common control

Based on the Agreement on Reorganization by Function concluded by the Company and its consolidated subsidiaries, Mitsui Sumitomo Insurance Co., Ltd. ("MSI"), Aioi Nissay Dowa Insurance Co., Ltd. ("ADI") and Mitsui Sumitomo Aioi Life Insurance Co., Ltd. ("MSI Aioi Life") on September 27, 2013, MSI and MSI Aioi Life as well as ADI and MSI Aioi Life concluded the Absorption-type Company Split Agreement on June 28, 2018 due to transfer the long-term third sector products held by MSI and ADI to MSI Aioi Life and implemented it on April 1, 2019.

(1) Overview of the transaction

(i) Name and content of the business

Business related to the long-term third sector products held by MSI and ADI

(ii) Date of the business combination

April 1, 2019

(iii) Legal form of the business combination

Simplified absorption-type company split where MSI and ADI are designated as the splitting companies and MSI Aioi Life as the successor company

(iv) Company name of the successor in the business combination

Mitsui Sumitomo Aioi Life Insurance Co., Ltd.

(v) Other items regarding outline of the transaction

By centralizing the product supply function in MSI Aioi Life, the Company aims to realize efficient operation through future improvement of level of customer support and concentration of management resources, demonstrate the group's comprehensive strength, and to improve customer satisfaction, growth potential and earning power.

(2) Outline of the accounting treatment applied

The Company plans to account for the transaction as a transaction under common control in accordance with "Accounting Standard for Business Combinations (ASBJ Statement No. 21, January 16, 2019) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10, January 16, 2019).

14. Any amount less than the stated unit is rounded down.

(Consolidated Statement of Income)

1. The amounts of gains on derivative transactions to reduce the currency risks of foreign currency reinsurance transactions, included in other underwriting income, are as follows:

(Yen in millions)

For the year ended March 31, 2019
4,434

2. The amounts of foreign exchange gains/(losses) included in other investment income/(expenses) are as follows:

(Yen in millions)

For the year ended March 31, 2019
63,767

3. Major components of business expenses are as follows:

(Yen in millions)

	For the year ended March 31, 2019
Commission expenses	682,532
Salaries	305,078

(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.

4. Impairment losses recognized on fixed assets are as follows:

(Yen in millions)

Use	Category	Description	Impairment losses on fixed assets		
				Breakdown	
Investment properties	Buildings	5 properties, including a building for rent in Fukushima	62	Buildings	62
Idle real estate and real estate for sale	Land, buildings and other tangible fixed assets	32 properties, including an office building in Niigata	1,431	Land Buildings Other tangible fixed assets	429 860 141
-	Software and other intangible fixed assets	Software related to telematics voluntary automobile insurance business operations in the United Kingdom	1,442	Software Other intangible fixed assets	1,179 262

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

Fixed assets are reviewed for impairment whenever events or changes in circumstances, such as a significant decline in the value of the asset (asset group) or a change in the intended use of the asset, indicate that the carrying amount of the asset (asset group) may not be recoverable. An impairment loss is measured by the amount in which the carrying amount of the asset (asset group) exceeds its recoverable amount, which is the higher of 1) the sum of discounted cash flows from the continued use and eventual disposition of the asset (asset group) and 2) the net sales value at disposition.

As the investment properties, idle real estate and real estate for sale in the above table were to

be sold, the aggregate difference between the carrying amounts of the assets and recoverable amounts was recognized as impairment losses on fixed assets under extraordinary losses.
The recoverable amounts of the assets to be sold represent their net sales value. The net sales value is determined based on the appraisal value provided by qualified appraisers or inheritance tax appraisal value measured by roadside land prices.
In addition, software, etc. related to the telematics voluntary automobile insurance business in the United Kingdom was tested for impairment in accordance with the revised future estimates based on the current sales conditions. As a result, the aggregate difference between the carrying amounts of the assets and recoverable amounts was recognized as impairment losses on fixed assets under extraordinary losses. The recoverable amount is measured by value in use and is calculated by discounting future cash flows at a rate of 9.3%.

5. Other extraordinary income represent reversal of reserve for reorganization by function.

6. Other extraordinary loss includes increased retirement payments due to reduction of employees of MS Amlin plc and its subsidiaries.

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

	For the year ended March 31, 2019
Basic net income/(loss) attributable to owners of the parent per share (in Yen)	328.72
Diluted net income/(loss) attributable to owners of the parent per share (in Yen)	328.60

(Notes) The basis of calculation is as follows:

	For the year ended March 31, 2019
Net income/(loss) attributable to owners of the parent (Yen in millions)	192,705
Average outstanding common stock during the year (in thousands of shares)	586,215
Increase in number of common stock used for calculation of diluted net income/(loss) attributable to owners of the parent (in thousands of shares)	212

8. Any amount less than the stated unit is rounded down.

(Consolidated Statement of Changes in Net Assets)

1. Type and number of issued stock and treasury stock

(in thousands of shares)

	Beginning balance	Increase	Decrease	Ending balance
Shared issued				
Common stock	593,291	-	-	593,291
Total	593,291	-	-	593,291
Treasury stock:				
Common stock	880	8,728	29	9,580
Total	880	8,728	29	9,580

(Notes)

1. The increase in the number of treasury common stock during the year was 8,728 thousand shares, as a result of market purchase of 8,714 thousand shares and repurchases of fractional stock of 14 thousand shares.
2. The decrease in the number of treasury common stock during the year was 29 thousand shares, as a result of exercise of stock acquisition rights of 28 thousand shares and sales of fractional stock of 0 thousand shares.

2. Stock acquisition rights

(Yen in millions)

Category	Breakdown	Ending balance
Filing company	Stock acquisition rights as stock options	785
Total		785

3. Dividends

(1) Dividends paid

Resolution	Type of shares	Aggregate amount of dividends (Yen in millions)	Dividends per share (in Yen)	Date of record	Effective date
June 25, 2018 Annual shareholders meeting	Common stock	38,506	65	March 31, 2018	June 26, 2018
November 19, 2018 Board of Directors Meeting	Common stock	40,860	70	September 30, 2018	December 5, 2018

(Note) Date of record is the date to determine shareholders who are entitled to receive dividends.

(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 (Yen in millions)	Source of dividends	Dividends per share (in Yen)	Date of record	Effective date
June 24, 2019 Annual shareholders meeting	Common stock	40,859	Retained earnings	70	March 31, 2019	June 25, 2019

(Note) Date of record is the date to determine shareholders who are entitled to receive dividends.

4. Any amount less than the stated unit is rounded down.