

●FY2022 Settlement of Accounts

○ Outline of settlement of accounts on revenue and expenditure

(Unit: million yen)

Revenues		Expenditures	
Revenue from reinsurance premiums	78,797	Reinsurance benefit	74,507
Miscellaneous revenues	26,672	Administrative costs	64
		Contingency fund	-
Total	105,470	Total	74,572

Note: Figures have been rounded down to the nearest one million yen, and so may not add up to the indicated total.

○ Amount of surplus in the settlement of accounts on revenue and expenditure, reason for the surplus, and treatment of the surplus

- Amount of surplus
30,897 million yen
- Reason for surplus
A difference between revenues and expenditures arose because the claims of reinsurance payment were small, etc.
- Treatment of surplus
Surplus is accumulated as a reserve fund, pursuant to the provision of Article 34, paragraph 1 of the Act on Special Accounts. See below for the approach to accumulating a reserve fund.

Act on Special Accounts (Act No. 23 of 2007)

(Reserve fund)

Article 34 In cases where surplus has arisen in the settlement of accounts on revenue and expenditure of each fiscal year, the amount of money out of the surplus which is necessary to appropriate for reinsurance benefit and redemption money for principal and interest shall be accumulated as reserve in the Special Account for Earthquake Reinsurance.

○ **Balance of reserve at end of FY2022**

- Balance of reserve (March 31, 2023)
1,949,236 million yen
- Amount accumulated from FY2022 settlement of accounts
30,897 million yen
- Purpose of reserve
Accumulating the “amount of money which is necessary to appropriate for reinsurance benefit and redemption money for principal and interest” in the event of a large earthquake as reserve, pursuant to the provision of Article 34, paragraph 1 of the Act on Special Accounts.

Note: With regard to the Earthquake Insurance, given the difficulty in predicting the possibility, timing and frequency of massive damage being sustained, the law of large numbers does not hold. Furthermore, revenues and expenditures will not balance unless viewed over an exceedingly long period of time. For these reasons, risks cannot be assumed by private general insurance companies alone. Therefore, the government reinsures the earthquake insurance liabilities of private general insurance companies, and pays out reinsurance claims in the event of massive earthquakes.

- Level of reserve
Based on the peculiarity that predicting earthquake disasters is difficult, it is difficult to set a level in advance. Then, from the viewpoint of long period revenues and expenditures balance, the surplus in the revenue and expenditure accounts is steadily accumulated as a reserve fund each fiscal year to pay out reinsurance claims in the event of future major earthquakes.

○ **Matters required to be disclosed in view of the business and undertaking accounted for in the special account**

- Basis for premium rates and mechanism for revising premium rates, etc.
Premium rates for the Earthquake Insurance are set as low as possible, on a no-loss no-profit basis which eliminates commercial purposes, under the framework that revenue and expenditure balance over a very long period, given the difficulty in predicting the timing, scale and frequency of earthquakes, and given that the scale of damage caused by an earthquake can be enormous. Moreover, based on the amount of insurance currently held,

premium rates for the Earthquake Insurance are calculated by computing the insurance claims to be paid each year through the simulation on damage caused by all earthquakes that could occur in the future (according to the hypocenter model used in producing the *Probabilistic Seismic Hazard Map*, published by the Headquarters for Earthquake Research Promotion, the Ministry of Education, Culture, Sports, Science and Technology). Premium rates are calculated by the General Insurance Rating Organization of Japan (GIROJ), pursuant to the provisions of Article 3, paragraph 5, Item 2 of the Act on Non-Life Insurance Rating Organization of Japan (Act No. 193 of 1948), and GIROJ has notified the Financial Services Agency.

While it is difficult for GIROJ to set premium rates by estimating future revenues and expenditures with certainty because of the peculiarity that predicting earthquake disasters is difficult, GIROJ revises premium rates, in view of the calculated revenues and expenditures based on the hypocenter model, each time in accordance with changes in risk calculation methods, etc.

Note: Amounts have been rounded down to the nearest unit.