FY2018 Settlement of Accounts

Outline of settlement of accounts on revenue and expenditure

(US: million yen)

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from reinsurance premiums</td>
<td>161,766</td>
</tr>
<tr>
<td>Miscellaneous revenues</td>
<td>24,435</td>
</tr>
<tr>
<td>Total</td>
<td>186,202</td>
</tr>
<tr>
<td>Reinsurance benefit</td>
<td>13,045</td>
</tr>
<tr>
<td>Administrative costs</td>
<td>60</td>
</tr>
<tr>
<td>Contingency fund</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>13,105</td>
</tr>
</tbody>
</table>

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**
  173,096 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 FY2018
- Balance of reserve (March 31, 2019)
  1,489,209 million yen

- Amount accumulated from FY2018 settlement of accounts
  173,096 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, and on the view expressed in a report by the Insurance Council (April 23, 1965) that "consideration should be given to prevent any reduction of insurance claims to be paid even in the event of a recurrence of an earthquake at least the size of the Great Kanto Earthquake," the upper limit of total liability (total insurance claims to be paid) per single earthquake, etc. has been set for 11,700 billion yen, of which the government assumes 11,566.2 billion yen in the FY2019 initial budget, so that the amount of insurance claims will not be reduced even if an earthquake of the same class as the Great Kanto Earthquake should occur again.

○ 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). Specifically, premium rates are established after the General Insurance Rating Organization of Japan (GIROJ) has notified the Financial Services Agency and the Financial Services Agency has consulted with the Ministry of Finance.

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.