Consolidated Solvency Margin Ratio as of December 31, 2017

The following table summarizes the consolidated solvency margin ratio as of December 31, 2017.

(Yen in millions)

	March 31, 2017	December 31, 2017
(A) Total amount of solvency margin	4,875,444	5,500,505
Total net assets	1,114,987	1,052,492
Reserve for price fluctuation	194,960	207,163
Contingency reserve	107,378	113,030
Catastrophe reserve	856,960	918,153
General bad debt reserve	528	440
Net unrealized gains/(losses) on investments in securities and net deferred gains/(losses) on hedges (Prior to tax effect deductions)	1,691,455	2,134,810
Net unrealized gains/(losses) on land	18,232	30,246
Total amount of unrecognized actuarial gains/(losses) and unrecognized past service costs (Prior to tax effect deductions)	(11,817)	(3,453)
Excess of policyholders' contract deposits (a)	392,649	383,347
Subordinated debts, etc. (b)	456,191	553,791
Amount excluded from the margin, out of (a) and (b)	-	-
Total margin relating to small amount and short term insurance provider	-	-
Deductions	183,210	174,261
Others	237,128	284,745
(B) Total amount of risks $\sqrt{\left(\sqrt{R_1^2+R_2^2}+R_3+R_4\right)^2+\left(R_5+R_6+R_7\right)^2}+R_8+R_9$	1,117,406	1,277,144
General insurance risk of non-life insurance contracts (R_1)	292,193	294,645
Insurance risk of life insurance contracts (R_2)	16,748	17,516
Insurance risk of third sector insurance contracts (R_3)	11,321	11,329
Insurance risk relating to small amount and short term insurance provider (R_4)	-	-
Assumed interest rate risk (R_5)	70,008	74,214
Minimum guarantee risk of life insurance contracts (R_6)	9,773	9,777
Asset management risk (R_7)	762,452	917,787
Business administration risk (R_8)	27,146	30,486
Catastrophe risk of non-life insurance contracts (R_9)	194,842	199,041
(C) Consolidated solvency margin ratio [(A)/{(B)×1/2}]×100	872.6%	861.3%

(Note) The consolidated solvency margin ratio is calculated pursuant to the provisions of Article 210.11.3 (the consolidated solvency margin) and Article 210.11.4 (the consolidated risk) of the Insurance Business Act Enforcement Regulations and Public Notice No. 23 issued by the Financial Services Agency in 2011.

The consolidated solvency margin ratio for December 31, 2017 is calculated by partially applying the simplified method where components are calculated based on the data used for September 30, 2017.

(Reference: Consolidated Solvency Margin Ratio)

The Group mainly runs non-life insurance business and life insurance business.

While insurance company groups set aside reserves to provide for payments of insurance claims in case that an insured event occurs and maturity refunds of savings-type insurance, they are also required to maintain sufficient funds to pay out in an event outside the normal range of expectations such as a major catastrophe and a significant drop in the value of their assets.

The consolidated solvency margin ratio, or item (C) in the above table, which is calculated in accordance with the Insurance Business Act, is the ratio of "solvency margin of insurance company groups calculated based on their capital and other reserves", or (A) the total amount of solvency margin, to "risks exceeding the normal range of estimates", or (B) the total amount of risks.

While the scope of consolidation in calculating the consolidated solvency margin ratio follows the scope of consolidation in accounting, all subsidiaries which fall within the definition of subsidiary set forth in the Insurance Business Act (i.e. subsidiaries whose more than 50% share of voting rights is owned by the Group) are, in principle, included in the calculation process regardless of their importance.

The consolidated solvency margin ratio is one of the objective indicators used by the insurance regulatory authorities to supervise insurance companies and insurance holding companies. A consolidated solvency margin ratio of 200% or over indicates adequate ability to satisfy insurance claims and other payment requirements.