POLICYHOLDER PROTECTION SYSTEMS

● Early Correction Safeguard System

Early correction safeguarding is a system designed to protect policyholders and ensure sound and appropriate operations at insurance companies. When an insurance company's solvency margin ratio falls below a certain level, depending on the circumstances, the regulatory agency may issue a directive to the insurance company to improve its operations.

An insurance company is subject to such a directive when its solvency margin ratio falls below 200%. The action standards and directives are categorized in the table on the right.

Depending on the assets and liabilities of the insurance company, as well as the management improvement plans submitted to the regulatory agency, additional directives may be issued for classifications other than the solvency margin ratio in the table on the right.

■ Action Standards and Directives

Classification according to solvency margin	Directive
First classification Under 200% Over 100%	Directive to propose and implement a management improvement plan
Second classification Under 100% Over 0%	Directive to discontinue or limit policyholder dividends and/or directive to change calculation methods for new policies (anticipated rate of return, etc.)
Third classification Under 0%	Directive to halt all or a portion of operations

● Bankruptcy Proceedings for Life Insurance Companies

When a life insurance company enters bankruptcy, the following two proceedings are taken to dispose of assets:

1. Corporate rehabilitation proceedings based on the court-guided rehabilitation law

   This proceeding is taken under the supervision of a court of law.

   First, the bankrupt insurance company petitions the court to start rehabilitation procedures (the commissioner of the Financial Services Agency (FSA) in Japan can also be petitioned). The court of law that receives this petition decides to start the procedures and appoints an administrator.

   The court-appointed administrator formulates a rehabilitation plan for transferring policyholders while managing and examining the operations and financial assets of the bankrupt insurance company. Through the decisions of related parties, the court-appointed administrator requests authorization from the court of law. After authorization is granted, the administrator executes the disposal of assets based on the rehabilitation plan.

2. Government proceedings based on the Insurance Business Act

   These proceedings are based on directives issued by the commissioner of the FSA.

   The commissioner of the FSA orders the cessation of all or a portion of operations at the bankrupt insurance company and appoints an insurance administrator to dispose of financial assets under management and operations.

   The insurance administrator manages and supervises the operations and financial assets of the bankrupt insurance company, creates plans for the management of operations and financial assets including the transfer of insurance policies, and seeks approval from the commissioner of the FSA. After approval is granted, the insurance administrator disposes of the assets according to the plan.

   There are no clear standards as to which of the aforementioned procedures will be taken and there are no differences in the indemnification through protective measures (see next page) between the two procedures.

● Life Insurance Policyholders Protection Corporation of Japan

The Life Insurance Policyholders Protection Corporation of Japan (Policyholders Protection Corporation) is a corporate entity that was established in December 1998 through the Insurance Business Act. In the event that a life insurance company goes bankrupt, this entity will protect policyholders through a mutual support system.

• Members and Financial Resources

The Company and other life insurance companies that operate in Japan are members of the Policyholders Protection Corporation and financial resources are, in principle, contributions paid by these members. However, until the end of March 2017, in the event that membership contributions from life insurance companies are insufficient as financial support to a life insurance company that goes bankrupt, the Japanese government may provide financial assistance to the Policyholders Protection Corporation through Diet deliberations.

• Main Operations

In the event of a bankruptcy of a life insurance company, the Policyholders Protection Corporation performs the following operations through a mutual support system for the purpose of protecting policyholders.

Primary Operations of the Policyholders Protection Corporation

1. Provides financial assistance to savior companies that take over insurance policies
2. Takes over insurance policies in the event that no savior company steps forward
3. Acts as a procedural representative for insurance policyholders in the event that the bankruptcy undergoes rehabilitation proceedings

• Main Content of Indemnification

In the event of a bankruptcy of a life insurance company, policy indemnification is as follows:

Type of insurance	Types of coverage	
Individual insurance	General policies	Policy reserves × 90%[1]
	High assumed interest rate policies[2, 4]	Policy reserves × (90% – Set rate)[1, 3]
Group insurance	General policies	Policy reserves × 90%[1]
	High assumed interest rate policies[2, 4]	Policy reserves × (90% – Set rate)[1, 3]
	Portion related to separate accounts of group annuity policies	Not eligible for indemnification[5]

Notes: 1. Policy reserves are reserves for future insurance claims, annuity and benefit payments, accumulated through insurance premiums and investment returns.
This system is not the indemnification for insurance claims, annuities and other benefits, but the indemnification for policy reserves. Accordingly, 90% of pension resource coverage attached to individual variable annuity insurance is not eligible for indemnification.

*2. High assumed interest rate policies*1 are policies for which assumed interest rates regularly exceeded reserve interest rates*2 during the five years preceding bankruptcy.*

**1: Reserve interest rates are determined by the commissioner of the FSA and the Finance Minister. The current reserve interest rate is 3%, which may be confirmed on the website of the Company or the Policyholders Protection Corporation.*

**2: When assumed interest rates are different for primary policies and for riders within one insurance policy, decisions of whether or not such policies fall under the category of a high assumed interest rate policy are made for both the primary policy and the rider.*

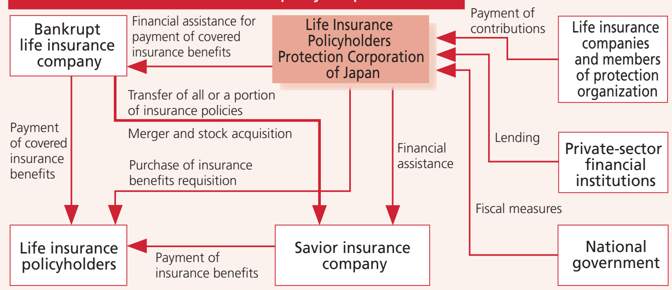
3. Set rate = (Sum of assumed interest rates for the previous five years less reserve interest rates) / 2

4. In the event that assumed interest rates are different for each insured when the insured are contributing insurance premiums, each insured shall be deemed to have concluded their own insurance policy, and it shall be determined whether or not such a policy falls into the category of a high assumed interest rate policy. However, regarding defined contribution annuity insurance policies, regardless of whether or not the insured is contributing premium, it shall be determined whether or not each insured's policy falls into the category of a high assumed interest rate policy.

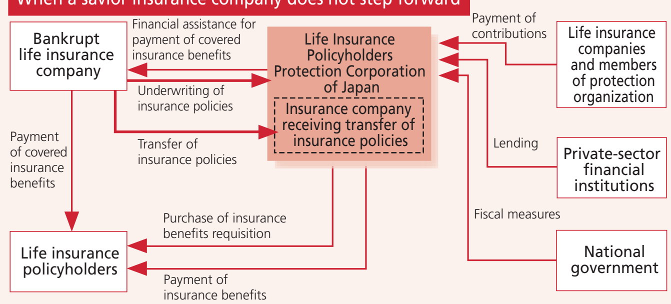
5. In rehabilitation procedures, it has become possible to create a rehabilitation plan in which policy reserves that fall into this category are not reduced (whether or not the reserves are actually reduced shall be determined in each individual rehabilitation procedure).

■ Framework of Life Insurance Policyholders Protection Mechanisms

When a savior insurance company steps forward



When a savior insurance company does not step forward



Information on the previous page and this page, including that regarding the scope of policies eligible for indemnity and the limit of indemnity for eligible policies, is based upon current legal statutes, and is subject to change in the future in accordance with revisions to those legal statutes. (July 2016)