

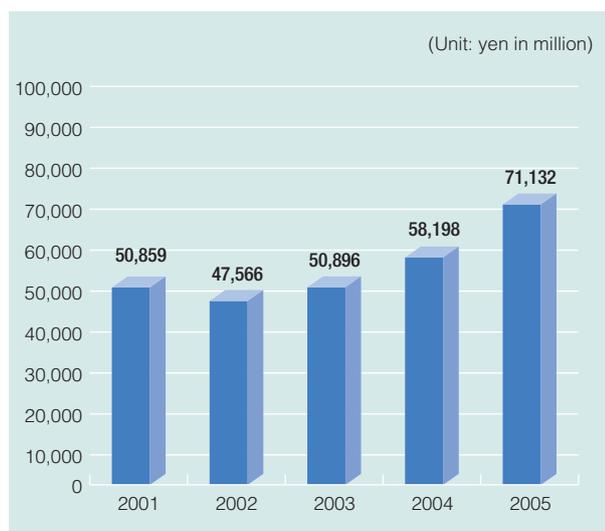


JER's present conditions

Typical management indicators

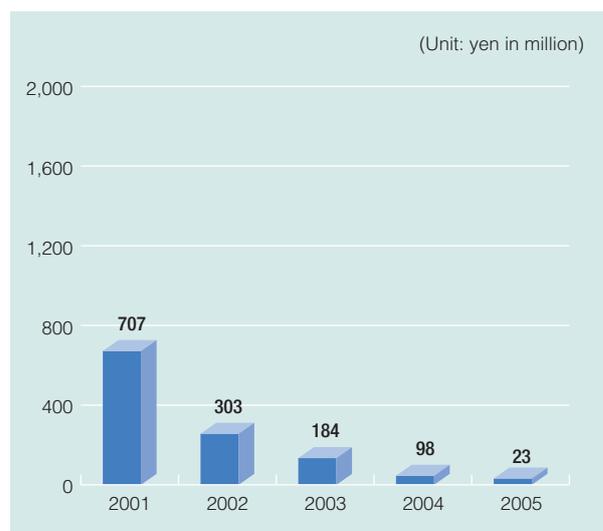
More and more earthquake insurance contracts have been entered into, and the net premiums written recorded a 22.2% increase over the previous year. In addition, the assets are being operated by highly liquid and high-rate securities for the payment of reinsurance money.

Net premiums written



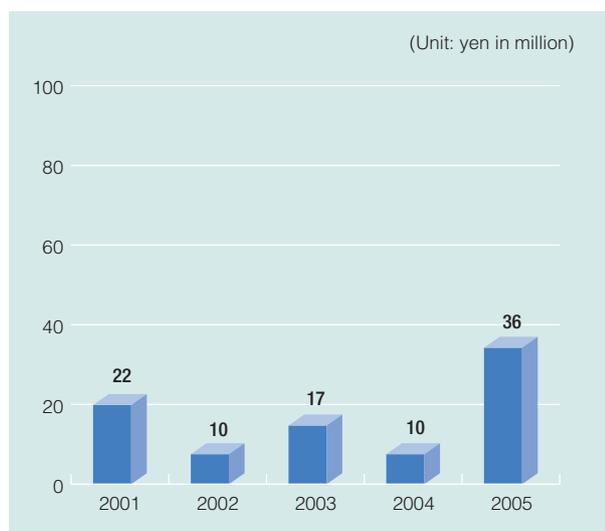
Net premiums written result from the deduction of reinsurance premiums of ceded reinsurance contracts from premiums written of assumed premiums written

Ordinary profit



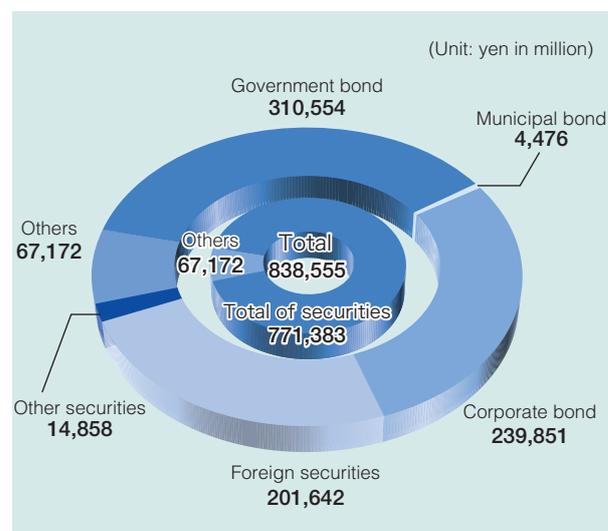
Ordinary profit = ordinary income – ordinary expenses

Net income



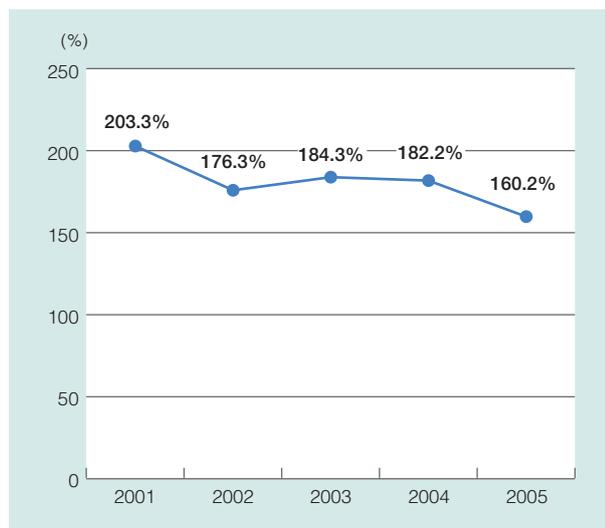
Net profit = ordinary incomes ± extra ordinary gains and losses ± corporate income taxes, local taxes and deferred income taxes

Breakdown of total assets (as of March 31, 2006)



The total assets are composed of cash, deposits, securities, property and other assets, as shown in B/S ASSETS.

Solvency-margin ratio



◆ Solvency-margin ratio

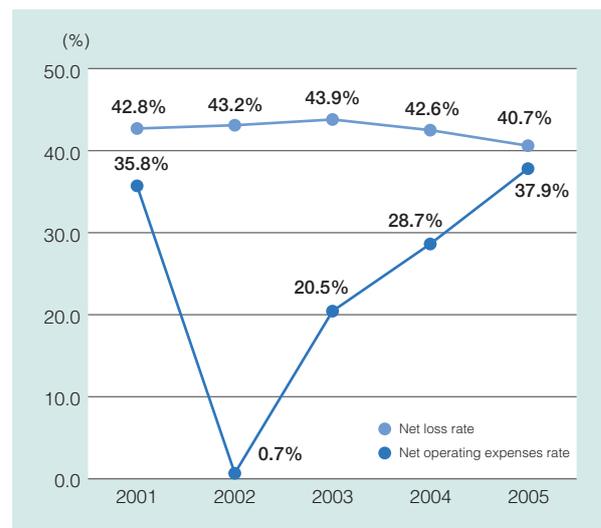
The non-life insurance company has reserves for insurance claims in case of accidents and repayment at maturity of installment insurance and other cases. In addition, it is expected that the company maintains satisfactory solvency against extraordinary, unpredictable risks such as great disaster and sharp decrease in assets owned by the company.

The solvency-margin ratio is one of the indicators which is used by the administrative authorities to give a check to the company for sound management. When the ratio is 200% or higher, the company is regarded as having proper and satisfactory solvency.

Japan Earthquake Reinsurance Co., Ltd. has entered into an earthquake insurance reinsurance contract with the Japanese government according to Law concerning Earthquake Insurance.

It is to be noted, in addition, that reinsurance on earthquake insurance is a special form of business as seen from the provision of Law saying that the government should make an effort to facilitate or accommodate loan necessary for the payment of insurance money, and Item 4, Order Article 3 stipulating the divisions as specified in Item 2, Article 132, Insurance Business Law provides that our solvency-margin ratio is not supposed to be usable as a key ratio despite the above-mentioned ratio level when the government issues an administrative order for business improvement.

Net loss ratio Net operating expenses ratio



Net loss ratio = (net claims paid + loss adjustment expenses) ÷ net premiums written

Net operating expenses ratio = operating expenses involved in insurance underwriting ÷ net premiums written

(Unit: Yen in million)

Fiscal Year	2001	2002	2003	2004	2005
Net premiums written	50,859	47,566	50,896	58,198	71,132
Net loss ratio	35.8%	0.7%	20.5%	28.7%	37.9%
Net expense ratio	42.8%	43.2%	43.9%	42.6%	40.7%
Underwriting incomes	62,860	51,897	54,678	61,995	91,001
Ordinary profit	707	303	184	98	23
Net income	22	10	17	10	36
Solvency-margin ratio	203.3%	176.3%	184.3%	182.2%	160.2%
Total shareholders' equity	1,569	1,577	1,579	1,587	1,605
Total assets	681,736	726,458	761,594	804,333	838,555
After-tax unrealized gain in securities	27	25	14	11	△ 5
After-tax unrealized gain in securities of earthquake insurance	11,748	11,825	7,000	5,458	△ 9,054

Coping with great earthquakes

The important role of ours is to pay reinsurance claims promptly as well as properly in the event that a great earthquake occurred. We are provided therefore with a standing task force against earthquake disasters, composed of full-time directors and managerial staff, and conduct a drill

against a great earthquake and system frame-up annually. We also use the best care to manage and operate the assets, bearing liquidity (realization) and safety in mind. See below for detail.

■ Task force against earthquake disasters and its activities

The committee is a standing in-house crossover organization. It prepares an annual plan, takes the first-step action according to the plan, sets up a task force headquarters and exercises payment of reinsurance claims, and keeps an emergency manual against an assumed great earthquake. In 2006, all of the directors and employees are put to the drill that they walk to and from work.

We also gave a check to the payment system in 2002, including a fund raising plan, by simulating damages suffered by the cities of Tokyo because of a destructive inland earthquake. An outside research institution prepared a survey report in 2005 in a close cooperation with the non-life insurance companies and JER, showing how much a destructive inland earthquake is assumed to damage the metropolis. It will serve us to improve the payment system.

■ Highly cashable assets based operation

We have to pay a tremendous amount of reinsurance claims in a short period of time in the event that a great destructive inland earthquake attacked the metropolis. For this reason, we always operate highly liquid, high-rating securities

on the main, and basically we are so prepared as to cash almost all the assets within 4 days. To reduce cost risks at the time of realization, we operate mid-term securities on the main.

Mid-term management plan

We celebrated the 40th anniversary on June 1, 2006. We have decided to take this opportunity to make out a mid-term management plan, the key words of which are [Trust and Leap], and start over.

Our goals in a 10-year perspective are:

- 1. To play an active role in fulfilling and developing the earthquake insurance system;**
- 2. To grow the company to a company highly trusted by the stakeholders at all times while operating the earthquake insurance system.**

In order to realize them, we have a more concrete three-year action plan composed of 15 target items. Furthermore, we have prepared a plan for the current year and we are to make every effort to achieve the plan without fail.

Three-year action plan

1 Assuming such a state of affairs as may force us to innovate, and conducting research on how to cope with it

- 2 Reinforcing the checkup system of ceded reinsurance contracts according to the treaty A
- 3 Preparing a plan of independent management of credits and debts
- 4 Innovating the current system of accounting and business operating
- 5 Executing a quarterly settlement of accounts

- 6 Building a unitary risk control system
- 7 Establishing and implementing an efficient way of exchange hedge

- 8 Upgrading the employees for business knowledge and skills, and fostering specialists
- 9 Supporting the employees institutionally for their life planning
- 10 Promoting the improvement of personnel system and work site environment

- 11 Taking measures for the improving of the earthquake insurance system
- 12 Conducting disposition of loss adjustment expenses from risk reserves

- 13 Taking active measures to encourage people to join earthquake insurance
- 14 Publicizing the products for contents and reinforcing the measures against great earthquakes

15 Strengthening corporate governance

Operating system

■ In-house governance system



■ Committees system based operation

Our corporate governance depends on the committees system under control of the board of managing directors. Composed of three committees, in-house auditing committee, compliance committee and comprehensive risk management committee, the system is aimed at conducting audit, law observation and risk management and maintaining sound business operation. Preparing for a natural calamity, the company is provided with a task force against natural disasters to fa-

cilitate the payment of the insurance claims and maintain the funding plan for payment, enabling the company to take prompt action in response to earthquake disasters of a large scale.

The annual operation policy and operating conditions of each committee is periodically reported to or put to the discussion by the board of managing directors and board of directors.

■ Compliance

We are making efforts to foster a sound corporate business climate needed as insurance company, considering strict abiding by law as one of the most important tasks. In order to establish a compliance promotion system, the company has set up the compliance committee headed by the president to enable it to manage and promote compliance in a unitary manner.

The current compliance program is so designed

as to review the action code, establish a legal checkup system, train the labor and management on human rights, hold a hearing on compliance and hold a study meeting participated by the labor and management. There are provided an in-house consultation window and an outside compliance hot line to promote strict abiding by laws and prevent and find any illegal action.

■ Information protection

Because the protection of information is one of our most important tasks, we hold a security policy, a basic one mentioning the safety measures, establishing safety measure standards as concrete instructions to this effect. We handle the information assets properly using the best care.

In particular, we handle personal information in a proper manner with reference to the privacy policy, personal information protection rules and personal data safety control standards in connection with proper acquisition, use and stocking of personal information.

☞ See p.18 Coping with great earthquakes for the task force against earthquake disasters and its activities.

■ Risk management system

It is getting more and more important to grasp and control various complicated and diversifying risks surrounding us, such as ongoing financial liberalization and sophistication of financial technology.

To meet the situation, we have been making efforts to maintain and develop the risk control system by establishing the comprehensive risk control committee to supervise risk control and reinforcing the functions of comprehensive risk control. This helps us understand risks exactly and control them properly. Developments of the matter are regularly reported to the board of directors and the board of managing directors as well.

Coping with assets management risks

The investment assets have amounted to 826.7 billion yen. Because it is primarily necessary to pay reinsurance money promptly and properly in case of a great earthquake disaster, the assets are being operated using public bonds on the main. The management of risks involved in the management of assets is carried out according to the annual control policy. See below for detail.

Market risks

We measure the responsiveness to interest rates and currency exchanges and value at risk (VaR), and calculate the amount of loss due to a heavy change in interest or exchange rate to limit the volume of risks.

Credit risks

When purchasing securities, we limit the issuers to those high in credibility with reference to the credit rating made by rating agencies. We always give a check to the securities in possession for credibility, and conduct individual controls to avoid the concentration in a specific group of companies or type of businesses.

Liquidity risks

We give a check to the individual securities in advance for cashing, and to the assets for cashing.

Coping with paperwork risks

We constantly put the rules and regulations of authority and paperwork procedures and manuals to the examination for exact and perfect paperwork. We also give a regular check to the rules and regulations by in-house auditing for conformity with related laws and regulations.

Coping with system risks

We constantly review the risk control plan with emphasis on system security in case of a calamity. This will result in the improvement of the control system.

■ Auditing system, outside and in-house inspection

Outside auditing and inspection

We are to be given a check for management and general business operation by the Financial Services Agency in accordance with Articles 129 and 313, Insurance Business Law and by the Ministry of Finance in accordance with Article 9, Law concerning Earthquake Insurance.

We are also audited for accounting by an auditing corporation in accordance with Law for Exception on Commercial Code.

In-house auditing

In addition to Commercial Code based auditing conducted by the auditors, we are equipped with the in-house auditing committee as an inside organization. In-house auditing puts emphasis on how big issues are handled by each division and the compliance system and risk control system as well.

The management of reinsurance, operation of finance and control system of assets are put to the auditing this year, putting emphasis on the inspection of internal control conditions including office work.

On top of that, we put the conditions of personal information control, system security and progress of compliance to the auditing.

