Japan Earthquake Reinsurance Co., Ltd.

2006

Japan Earthquake Reinsurance Co., Ltd.

Table of Contents

Chairman:
Shozo Wakabayashi

President:
Akihiko Mori

Introduction

We are glad to introduce to you a detailed disclosure of what we have done and of what we are going to do in the years ahead.

We established ourselves in 1966 as the one and only company in Japan that was allowed to exclusively handle reinsurance business on dwelling earthquake insurance, celebrating in June 2006 the 40th anniversary. Not only our utmost efforts have been made so far to reinforce and upgrade the system of our reinsurance payment, but also our best care has been given to manage and operate assets to well support the system.

Earthquake insurance contracts continuously increased in fiscal 2005, amounting to more than 10 million. The balance of the total assets as of the end of March 2006 amounted to 838.5 billion yen. It is expected that earthquake insurance contracts will be increasing more than ever in fiscal 2006 mainly because of tax reform enabling the deduction of earthquake insurance premiums from incomes.

We have to admit, however, that there occurred in fiscal 2005 some mistakes in accounting procedures failing to add up re-insurances from some direct insurers. We have decided on the occasion of our 40th anniversary to drastically review business management as a whole, and to make a three-year mid-term management plan for the first time in a long-range perspective, with an aim at well solid business management, pursuing an important role and responsibility.

Bearing in mind that disclosure is a very useful means for corporate governance, we have prepared this disclosure booklet. We hope that it will help you understand the current situation and activities of the company. We would like you to take a look at our internet home page as well, and your comment or opinion will be appreciated very much.

December 2006

President
Japan Earthquake Reinsurance Co., Ltd.

Company in outline (as of March 31, 2006)

Established:	May 30, 1966
Capital:	1 billion yen
Total assets:	838.5 billion yen
President:	Akihiko Mori
No.of employees:	21
Address:	Kobuna-cho Fuji Plaza, 8-1, Nihonbashi-kobuna-cho, Chuo-ku, Tokyo Japan 103-0024
Phone:	03-3664-6074
URL:	http://www.nihonjishin.co.jp/

Japan's earthquake risks

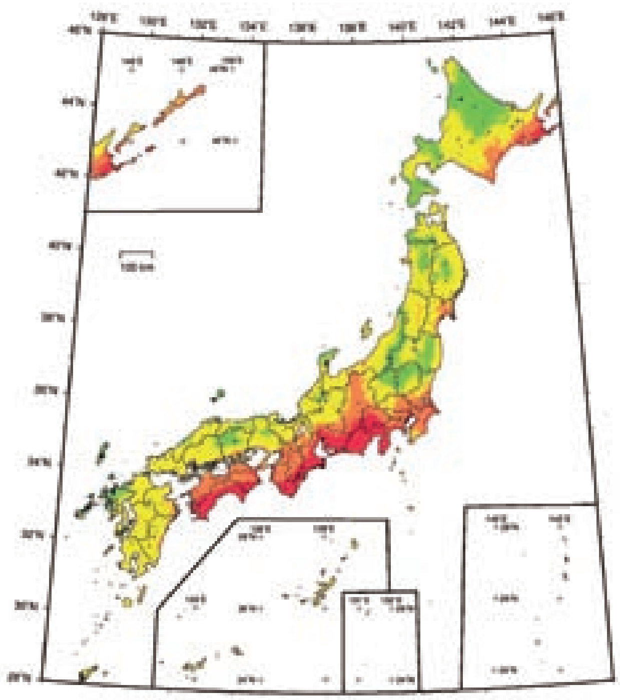
1. Proclamation of a predictive earthquake map by the Headquarters for Earthquake Research Promotion

The Headquarters for Earthquake Research Promotion of the Ministry of Education and Science announced in March 2005 a Probabilistic Seismic Hazard Map.

The Probabilistic Seismic Hazard Map shows the result of estimation per area of the likelihood of heavy shakes that might attack Japan, giving a consideration to a long-range probability of earthquake occurrence all over the country. It will tell us, for example, of the likelihood of strong shakes of slightly less than 6 and over on a seismic intensity scale that might attack us in a certain period of time from now on. The map is called as earthquake hazard map on a probability theory in the field of earthquake engineering and seismology.

For reference, the Probabilistic Seismic Hazard Map is shown, indicating the likelihood of earthquakes of slightly less than 6 and over on seismic intensity scale within 30 years to come.

A distribution map of the probability of earthquake of slightly less than 6 and over on seismic intensity scale or higher within 30 years to come.



Probability

High	26% or higher
	6%~26%
	3%~6%
Rather high	0.1%~0.3%
	Under 0.1%

Note: "High" in the probability of earthquake of slightly less than 6 and over on a seismic intensity scale within 30 years to come shows any of the following probabilities: 26% means that an earthquake might happen in about 100 years on the average, 6% means that an earthquake might happen in about 500 years, and 3% means that an earthquake might happen in about 1,000 years.

(Source: National Seismic Hazard Map for Japan prepared by the Headquarters for Earthquake Research Promotion)

2. The Central Disaster Prevention Council proclaimed the result of estimation of earthquake losses.

The Central Disaster Prevention Council of Japan has disclosed the results of estimation of probable Tokai earthquake, Tonankai earthquake, Nankai earthquake, metropolitan earthquake directly above its epicenter, deeps earthquakes surrounding the Japan Deeps and the Chishima Deeps and is under discussion on a disaster preventive strategy and preventive measures against disasters with a view to reducing earthquake caused losses.

	Tokai earthquake	Tonankai and Nankai earthquakes	Metropolitan earthquake directly above its epicenter	Deeps earthquakes surrounding the Japan Deeps and the Chishima Deeps
Damages to buildings	Approx. 460, 000	Approx. 630,000	Approx. 850,000	Approx. 21,000
The dead	Approx. 5,900	Approx. 12,500	Approx. 11,000	Approx. 290
Economic loss	Approx. ¥37,000 billion	Approx. ¥57,000 billion	Approx. ¥112,000 billion	Approx. ¥1,300 billion
Direct	Approx. ¥26,000 billion	Approx. ¥43,000 billion	Approx. ¥67,000 billion	Approx. ¥1,000 billion
Indirect	Approx. ¥11,000 billion	Approx. ¥14,000 billion	Approx. ¥45,000 billion	Approx. ¥300 billion

Notes:

1. Each case shows the worst example of earthquake which might happen at 18:00 and with a wind velocity of 15 meters.

2. It is assumed that Tonankai and Nankai earthquakes happen at the same time.

3. Metropolitan earthquake directly above its epicenter is assumed to happen in the north of Tokyo Bay.

4. Deeps earthquakes surrounding the Japan Deeps and the Chishima Deeps are of the Miyagi-ken Oki earthquake type (worst case of the 6 assumed earthquakes:).

(Source: Data published by the Cabinet Office)

Establishing the earthquake insurance system

Japan is worldly known as a country which is attacked so often by earthquakes, but people used to think generally that it is difficult to cover earthquake caused disasters by insurance. One reason for this is that no one can be sure when an earthquake happens, and another is that there is a risk that tremendous damages will result in case of a great earthquake. Much research and discussion has been repeated on earthquake insurance for many years, getting nowhere. There was a social demand, nonetheless, for the establishing of a dwelling risks earthquake insurance system* to help people affected by an earthquake which made them lose their basis of life such as house and household goods rebuild their life. The non-life insurance business world promoted, in response to the demand, a lot of research on the founding of such a system.

The Niigata Earthquake which happened in June 1964 grew a tendency toward the establishment of the system. The government and the non-life insurance world put the earthquake insurance system to a detailed examination, which eventually enacted Law concerning Earthquake Insurance. The dwelling risks earthquake insurance system was built according to the law and Japan Earthquake Reinsurance Co., Ltd. (JER) was established. We play an important role to take the full responsibility by reinsurance of earthquake insurance contracts entered into by non-life insurance companies. For detail, see p.8 “Mechanism of reinsurance”.

*Non-life insurance is divided into two groups: one is insurance in the household risks field taken by individuals on various home risks; the other is insurance in the corporate risks field taken by companies on various company’s risks. This goes for earthquake insurance. Insurance taken by individuals is called as dwelling risks earthquake insurance, and the other insurance is called as company-oriented earthquake insurance.
Law concerning Earthquake Insurance enacted targets at dwelling risks earthquake insurance.

Mechanism of earthquake insurance and reinsurance

Earthquake insurance is to be entered into as an optional rider to fire insurance* which covers buildings for residential use and/or movables for living. No one can buy earthquake insurance alone. When you conclude a fire insurance contract without earthquake insurance, you are required to put your seal in the earthquake insurance check column of a fire insurance contract application form.

Suppose that you have entered into a fire insurance contract without earthquake insurance, and you will be able to buy earthquake insurance while your fire insurance contract is valid. In the event that a warning statement is issued, you may not be able to buy earthquake insurance in some area.

*For detail, see p.38 Glossary.

Insurance Coverage

Loss of or damage to the buildings for residential use and/or movables for living by fire, destruction, burial or being washed-away caused directly or indirectly by any earthquake or volcanic eruption, or resulting tsunami (referred, hereinafter, to as earthquake and so on).

Fire insurance does not cover

1. any of losses caused by fire (spread thereof, and expanded loss) resulting from earthquake and so on, and
2. any of fires spread and expanded due to earthquake and so on.

Earthquake insurance is needed to compensate these kinds of loss.

Insurable interests

Buildings for residential use and/or movables for living

None of the following is insurable:

A building used as a plant or office, and not used for dwelling purposes, noble metal, gemstones or antiques valued at ¥300,000 or higher per piece, currency, securities (checks, share certificates, gift certificates), deposits certificates, revenue stamps, postal stamps, automobiles and some others.

Term insured

Short-term, 1 year, and long-term (2 - 5 years)

Amount insured

The policyholder is required to set the amount insured of earthquake insurance within a scope of 30 - 50% of that of his/her fire insurance. Provided, however, that the amount insured is limited to a maximum of ¥50 million for a building and ¥10 million for movables for living.

Fire insurance
Ordinary fire insurance, long-term comprehensive insurance, deposit life comprehensive insurance, dwelling fire insurance, householders' comprehensive insurance, storekeepers' comprehensive insurance and some others.

The amount insured of a comparted-ownership building such as apartment building is limited to ¥50 million, totaling exclusively possessed parts and jointly owned parts by comparted-owners.

Payment of insurance claims

Insurance claims will be paid according to the policyholder's earthquake insurance to cover total, half or partial loss of his/her residential building and/or movables for living.

Insurable objects	Degree of loss	Amount of insurance claim paid
Residential buildings, movables for living	Total loss	100% of amount insured (up to the current price* of the insurable objects)
	Half loss	50% of amount insured (up to 50% of the current price of the insurable objects)
	Partial loss	5% of amount insured (up to 5% of the current price of the insurable objects)

Authorization criteria of losses

Total loss, half loss or partial loss is applicable to any the following cases

Degree of loss	Residential building		Movables for living
	Amount of loss of major structural parts	Area of floor burnt down or washed away (partial loss applies when the residential building is flooded above the floor level)	Degree of loss of or damage to the movables for living
Total loss	50% or higher of the current price of the residential building	70% or higher of the total floor area of the residential building	80% or higher of the current price of the movables for living
Half loss	20% or higher to less than 50% of the current price of the residential building	20% or higher to less than 70% of the total floor area of the residential building	30% or higher to less than 80% of the current price of the movables for living
Partial loss	3% or higher to less than 20% of the current price of the residential building	The residential building was damaged but not totally or half lost although it was flooded above the floor level or above 45 cm or higher from the ground level.	10% or higher to less than 30% of the current price of the movables for living

Cases when no insurance claim is payable:

- Loss or damage due to willful acts or gross negligence or violation of law
- Loss or damage due to war or rebellion
- Loss or damage which occurred 10 days or longer after the earthquake
- Loss or robbery of the objects of the insurance

Limit of total amount of insurance claims to be paid

Limit of total amount of insurance claims to be paid* is limited to 5,000 billion yen as revised in April 2005 per earthquake and so on. In the event the total amount of insurance claims payable exceeds the limit, law allows insurance claims per contract to be reduced.

***Current price**
The current price is such that the amount of depreciation according the service year is deducted from the price of a newly constructed building.

***Limit of total amount of insurance claims to be paid**
Law concerning Earthquake Insurance stipulates the limit to the total insurance claims payable by the government and private insurance company per earthquake and so on. For detail, see p.10 Insurance liability held by JER, non-life insurance companies and the government, and p.38 Glossary.

Premium rate

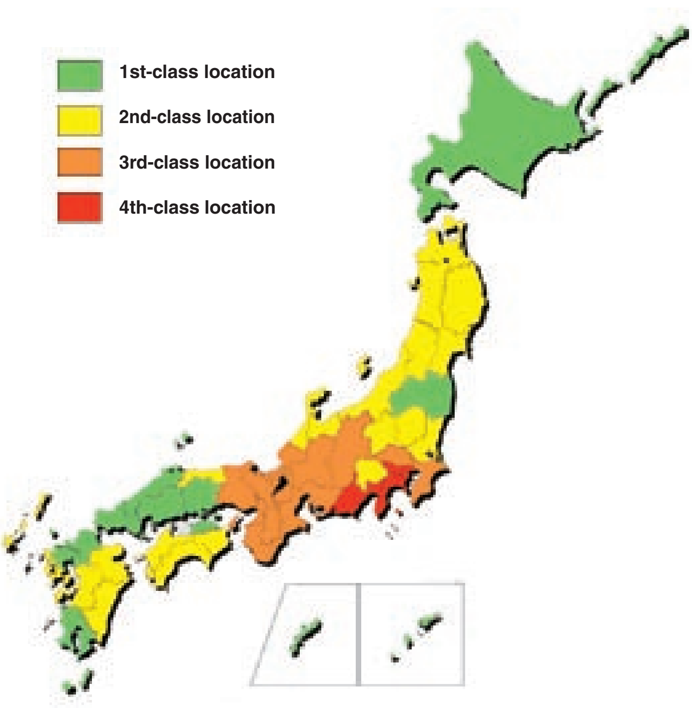
Premium rate for earthquake insurance is calculated by the Non-life Insurance Rating Organization of Japan* on the basis of Law concerning Non-life Insurance Rating Organizations.

Premium rate = Risk premium rate + Loading rate

The basic rate of insurance premium is composed of risk premium rate applicable to or appropriate for future payment of insurance claims and loading premium rate applicable to or appropriate for non-life insurance companies' expenses and agents' commissions.
Risk premium rate is actually calculated on such data as related to past 375 earthquakes which caused damages for the past 500 years approximately appearing on a chronological scientific table edited by the National Astronomical Observatory of Japan.

Basic rate (applicable to buildings and movables for living)

The basic rate is set according to the residential building, the structure of the building to accommodate the movables for living and the building location.



Per insurance year / insurance money 1,000 yen

(Unit: yen)

Zone by location grade \ Structure	Non-wooden	Wooden
1st-class location	0.50	1.20
2nd-class location	0.70	1.65
3rd-class location	1.35	2.35
4th-class location	1.75	3.55

1st-class location: Hokkaido, Fukushima-ken, Shimane-ken, Okayama-ken, Hiroshima-ken, Yamaguchi-ken, Kagawa-ken, Fukuoka-ken, Saga-ken, Kagoshima-ken, Okinawa-ken
2nd-class location: Aomori-ken, Iwate-ken, Miyagi-ken, Akita-ken, Yamagata-ken, Ibaraki-ken, Tochigi-ken, Gunma-ken, Nigata-ken, Toyama-ken, Ishikawa-ken, Yamanashi-ken, Tottori-ken, Tokushima-ken, Ehime-ken, Kochi-ken, Nagasaki-ken, Kumamoto-ken, Oita-ken, Miyazaki-ken
3rd-class location: Saitama-ken, Chiba-ken, Fukui-ken, Nagano-ken, Gifu-ken, Aichi-ken, Mie-ken, Shiga-ken, Kyoto-fu, Osaka-fu, Hyogo-ken, Nara-ken, Wakayama-ken
4th-class location: Tokyo-to, Kanagawa-ken, Shizuoka-ken

***Non-life Insurance Rating Organization of Japan**
This is the organization which was established in accordance with Law concerning Non-life Insurance Rating Organization and aims at providing a fair basis premium rate applicable to non-life insurance.

***Chronological scientific table**
A data book annually edited and published by the National Observatory Japan, Ministry of Education and Science, containing up-to-date researches and observations in the fields of natural science such as astronomy, weather and physical geography. The damage-causing earthquakes chronological table in the book is used when calculating the risk premium rate.

Discount rate

Either discount rate will be applied to the foregoing basic premiums rate when the building and movables for living come under any of the following:

(a) Construction age discount rate

When the building was constructed in and after June 1981 and accommodated movables for living.

Discount rate	10%

(b) Earthquake-resistance class discount rate

When the building and movables for living correspond to the earthquake-resistance class* as provided for by law.

Earthquake-resistance class	1	2	3
Discount rate	10%	20%	30%

Premium rate of a long-term contract

Premium rate of a long-term contract will be calculated as follows:

(Basic rate - discount rate) x applicable coefficient = premium rate of a long-term contract (2 to 5 year contract with special conditions of premiums paid).

Contract period	2 years	3 years	4 years	5 years
Coefficient	1.90	2.75	3.60	4.45

■ An example of insurance premiums calculated

A wooden residential building constructed in January 2000 in Hyogo-ken:

Fire insurance (principal contract) amount insured: Building 20 million yen; movables for living 6 million yen

1. Setting the amount insured of earthquake insurance: In this case, the proportion insured (*) will be 50%.
   Residential building: 20 million yen x 50% = 10 million yen
   Movables for living: 6 million yen x 50% = 3 million yen
2. Confirming the premium rate applicable: Hyogo-ken (3rd-class location), wooden → 2.35
3. Confirming the discount rate applicable: Building constructed in and after June 1981 → 10%

Earthquake insurance premium on residential building

$$= \underset{\text{(1,000yen)}}{\overset{\text{Earthquake amount insured}}{10{,}000}} \times \underbrace{\overset{\text{Earthquake insurance premium rate}}{2.35} \times \overset{\text{Discount rate}}{(100\% - 10\%)}}_{2.12} = \underset{\text{(yen)}}{21{,}200}$$

Earthquake insurance premium on movables for living

$$= \underset{\text{(1,000yen)}}{\overset{\text{Earthquake amount insured}}{3{,}000}} \times \underbrace{\overset{\text{Earthquake insurance premium rate}}{2.35} \times \overset{\text{Discount rate}}{(100\% - 10\%)}}_{2.12} = \underset{\text{(yen)}}{6{,}360}$$

Earthquake-resistance class

The earthquake-resistance class of a residential building is an indicator of earthquake-resistance class as stipulated in the Japanese Housing Performance Designation Standards based on the Housing Quality Guarantee Law or one to evaluate the building for earthquake-resistance performance as provided for in the assessment guideline to earthquake-resistance diagnosis based earthquake-resistance class (as to the body of the building) established by the Ministry of Land, Infrastructure and Transport. See below for the classes.

Earthquake-resistance class 3	Class suggesting that no building falls down or collapses against force 1.5 times stronger than such force of earthquake (as provided for in Section 3, Article 88, Enforcement Order of the Construction Standard Act) which happens very rarely (once every some hundred times)
Earthquake-resistance class 2	Class suggesting that no building falls down or collapses against force 1.25 times stronger than such force of earthquake which happens very rarely
Earthquake-resistance class 1	Class suggesting that no building falls down or collapses against force of earthquake which happens very rarely

Proportion Insured

The rate of earthquake amount insured over fire amount insured. Earthquake amount insured is supposed to be set within 30 - 50% of fire insurance amount insured.

Mechanism of reinsurance

In the event that a great earthquake happens, it can result in large payouts of insurance claim by insurance companies. Because there is a certain limit, however, to the capability of payment on the part of non-life insurance companies, the government shares insurance responsibility with them by reinsurance.

We reinsurance the earthquake insurance contracts underwritten by non-life insurance companies to take the full liability, which we homogenize before we pass on the risk proportionally to the non-insurance companies and the government by retrocession according to the limit indemnity, and we take up the remaining indemnity.

Reinsurance by JER for non-life insurance companies (Treaty A reinsurance on earthquake insurance)

Treaty A

JER has entered into a treaty reinsurance contract with non-life insurance companies operated in Japan. According to the contract, the non-life insurance companies conclude a reinsurance contract with JER on the earthquake insurance contracts in full underwritten by them conforming to Law concerning Earthquake Insurance, and JER is supposed to take up the full liability for such an earthquake insurance without fail.

Retrocession by JER on non-life insurance companies (Treaty B reinsurance on earthquake insurance)

Treaty B

JER enters into a treaty reinsurance contract individually with the non-life insurance companies, and retrocedes to each company part of insurance liability taken up by JER to the limit as determined according to the balance of earthquake insurance risk reserves and so on.

Retrocession by JER on the government (Excess of loss reinsurance)

Treaty C

JER has entered into an Excess of loss reinsurance with the government on earthquake insurance for loss exceeding the amount payable by JER, according to which JER retrocedes to the government part of insurance liability taken up according to Treaty A to the indemnity limit as approved by the Diet.

Mechanism of payment of insurance claims

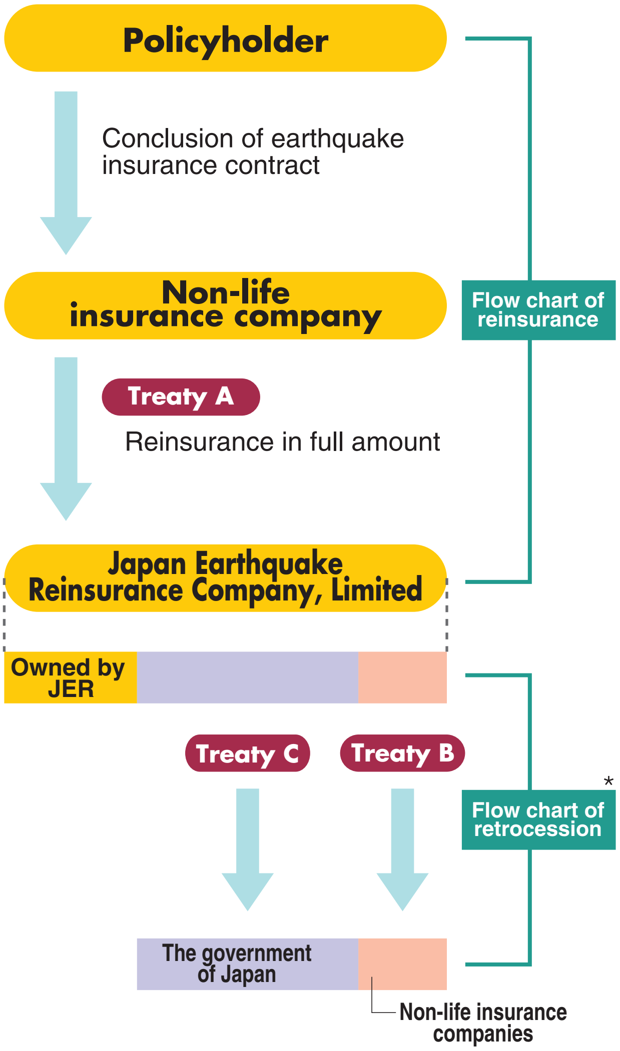
The policyholder claims insurance money to the non-life insurance company when he / she suffered a certain loss or damage because of earthquake and so on, and the company will pay insurance claim to him / her.

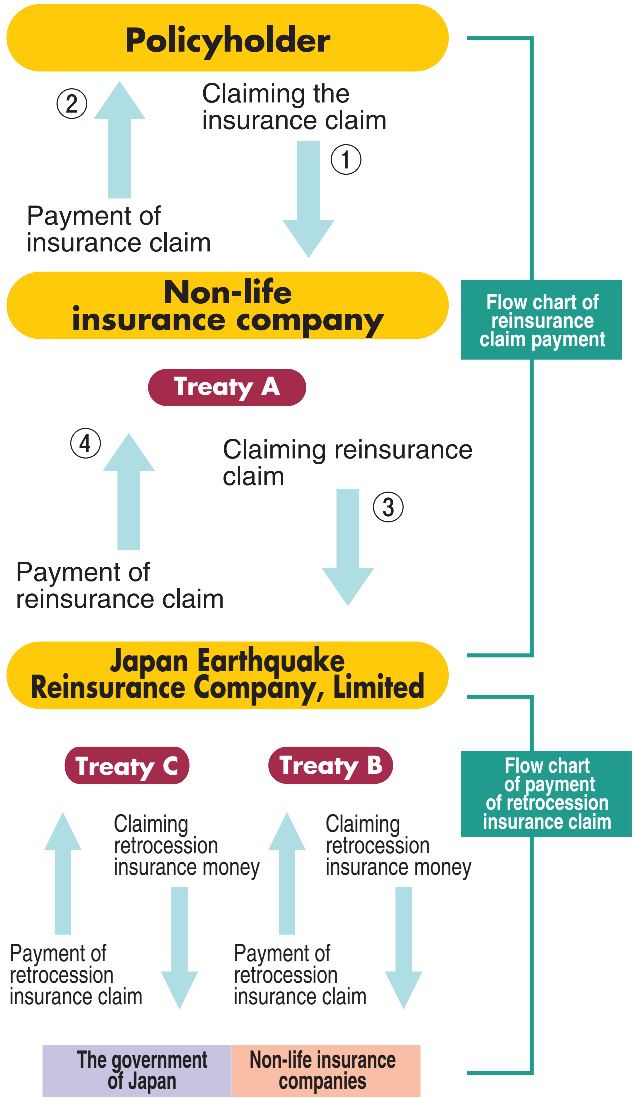
The non-insurance company which paid insurance claim to the policyholder will claim the full amount to JER by reinsurance. JER will pay the reinsurance claim in full amount to the non-life insurance company.

This means that the amount of reinsurance claim paid by JER is the same in amount as the insurance claim paid to the policyholder by the non-life insurance company.

☞ See p.11 Top 10 earthquakes as to reinsurance claims paid.

Flow chart of reinsurance on earthquake insurance





When you want to buy earthquake insurance:

Contact your non-life insurance company when you have already entered into a fire insurance or a household comprehensive insurance. If not, directly contact your selected non-life insurance company or a non-life insurance agent. The internet home page of The General Insurance Association of Japan will be of help to you.

*JER retrocedes the insurance liability taken by JER according to Treaty A to the non-life insurance companies and the government, and we hold the remaining liability so that insurance liability will be shared among the parties.

When you suffered an earthquake caused loss or damage:

Contact your non-life insurance company or agent when you have bought earthquake insurance.

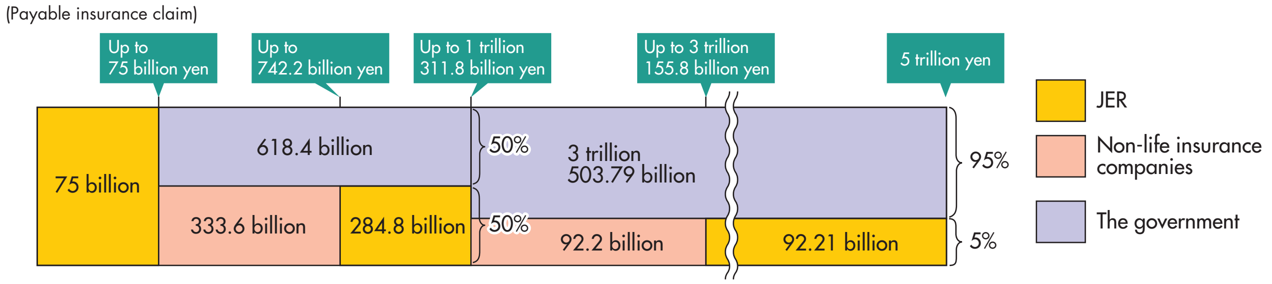
When a non-life insurance company became insolvent:

As to earthquake insurance, insurance claim will be indemnified in full amount by the Non-life Insurance Policy-holders Protection Corporation of Japan for the company when the policyholder is an individual, a corporate of a small scale or a condominium management union.

Insurance liability held by JER, non-life insurance companies and the government

The following is the reinsurance scheme showing how much each of JER, non-life insurance companies and the government shares insurance liability*, and the way each performs shared liability.
The total amount of insurance claims to be paid due to a single earthquake is limited to 5 trillion yen, starting on April 1, 2005. See below for the reinsurance scheme and the total maximum liability limit.

How to perform liability (reinsurance scheme)



*See p.38 Glossary for insurance terms for limit amount of total payable insurance claims and the indemnity limit.

Indemnity limit

JER **Non-life insurance companies** **The government**	452.01 billion yen 425.8 billion yen 4 trillion 122.19 billion yen
Total (limit amount of payable insurance claims)	5 trillion yen

The balance of JER's and non-life insurance companies' risk reserves and the government liability reserves at the end of fiscal 2005

JER and the non-life insurance companies save the risk premium of the policyholder paid insurance premium as earthquake insurance risk reserves for possible payment of earthquake insurance claim while the government saves governmental reserves in the earthquake insurance special account according to law.
In the event that an earthquake occurs causing losses or damages, each of JER, non-life insurance companies and the government pays insurance claim according to each liability as stipulated in the reinsurance scheme by withdrawing from the reserves.

JER **Non-life insurance companies** **The government**	378.7 billion yen 427.4 billion yen 1,012.3 billion yen
Total	1 trillion 818.5 billion yen

Note 1: The risk reserves by the non-life insurance companies such an amount as equivalent to deferred tax assets due to tax effect accounting.
Note 2: The governmental liability reserves are established when the settlement for fiscal 2005 is approved at the Diet.

Examples of insurance claims to be paid by JER, non-life insurance companies and the government.

Suppose that insurance claims amounting to 2 trillion yen for losses or damages due to a single earthquake are to be paid, and JER, non-life insurance companies and the government will pay each in the following amount:

(Unit: 100 million yen)

claims paid / A person of burden	Portion up to 75 billion yen	Portion up to 1 trillion 311.8 billion yen from more than 75 billion yen	Portion up to 2 trillion yen from more than 1 trillion 311.8 billion yen	Total
JER	750	2,848	–	3,598.0
Non-life insurance companies	–	3,336	344.1	3,680.1
The government	–	6,184	6,537.9	12,721.9
Total	750	12,368	6,882.0	20,000.0

Reinsurance claims paid in fiscal 2005

The reinsurance claims paid in fiscal 2005 reached 24 billion 662 million yen in amount including earthquake reinsurance claims paid to cover Fukuoka-ken seiho earthquake and 34,188 cases in number (on the basis of insurance policies). See below for major claims paid per earthquake.

Earthquake	Date of occurrence	Magnitude	No. of policies	Reinsurance claims paid (million yen)
1. Fukuoka ken Seiho-oki earthquake	March 20, 2005	7.0	21,081	16,286
2. Fukuoka ken Seiho-oki earthquake	April 20, 2005	5.8	8,350	5,214
3. Miyagi ken oki earthquake	August 16, 2005	7.2	2,549	1,387
Other earthquakes	–	–	2,208	1,775
Total	–	–	34,188	24,662

Top 10 earthquakes as to reinsurance claims paid

See the table below for the top 10 earthquakes as to reinsurance claims paid since the earthquake insurance scheme started.

(As of March 31, 2006)

Earthquake	Date of occurrence	Magnitude	No. of policies	Reinsurance claims paid (million yen)
1. Hyogoken-Nanbu earthquake	January 17, 1995	7.3	65,427	78,346
2. Geiyo earthquake	March 24, 2001	6.7	24,438	16,934
3. Fukuoka ken Seiho-oki earthquake	March 20, 2005	7.0	21,081	16,286
4. Niigataken-tyuetsu earthquake	October 23, 2004	6.8	12,472	14,618
5. Tokachi-oki earthquake	September 26, 2003	8.0	10,516	5,954
6. Fukuoka ken Seiho-oki earthquake	April 20, 2005	5.8	8,350	5,214
7. Tottoriken-Seibu earthquake	October 6, 2000	7.3	4,078	2,868
8. Miyagiken-Hokubu earthquake	July 26, 2003	6.4	2,540	2,171
9. Miyagiken-oki earthquake	May 26, 2003	7.1	2,959	1,915
10. Miyagiken-oki earthquake	August 16, 2005	7.2	2,549	1,387

Note: Insurance claims in the amount of 78 billion 346 million yen were paid to cover the Hyogoken-Nanbu earthquake. Of the claims, the government paid 6 billion 173 million yen, JER 40 billion yen and the non-life insurance companies 32 billion 173 million yen according to the reinsurance scheme in force at the time.

The rate of earthquake insurance buying households in such an area as might be attacked by a great earthquake

(As of March 31, 2006)

Earthquake	No. of households (A) (1,000 households)	No. of contracts (B) (1,000 contracts)	Amount of insurance money (million yen)	Rate of insurance buying households (B/A)(%)
Great Kanto earthquake	22,585	5,505	43,016,007	24.38
Metropolitan earthquake directly above its epicenter	15,900	4,013	31,100,851	25.24
Tokai earthquake	21,469	5,434	42,473,741	25.31
Tonankai earthquake	20,441	4,610	35,988,724	22.55
Nankai earthquake	27,972	5,956	46,712,285	21.29

Great Kanto earthquake (1 metropolis,10 prefectures): Tokyo, Saitama, Chiba, Kanagawa, Yamanashi, Shizuoka, Ibaraki, Tochigi, Gunma, Nagano, Aichi
Metropolitan earthquake directly above its epicenter (1 metropolis, 4 prefectures): Tokyo, Saitama, Chiba,Kanagawa, Ibaraki
Tokai earthquake (1 metropolis, 9 prefectures): Tokyo, Kanagawa, Yamanashi, Shizuoka, Aichi, Gifu, Mie, Saitama, Chiba,Nagano
Tonankai earthquake (13 prefectures): Shizuoka, Aichi, Mie, Osaka, Nara, Wakayama, Gifu, Shiga, Kyoto, Hyogo, Chiba, Kanagawa, Tokushima
Nankai earthquake (23 prefectures): Mie, Osaka, Hyogo, Nara, Wakayama, Okayama, Tokushima, Kagawa, Ehime, Kochi, Kyoto, Hiroshima, Yamaguchi, Oita, Miyazaki, Chiba, Kanagawa, Shizuoka, Aichi, Shimane, Fukuoka, Kumamoto, Kagoshima

Note: Prepared by JER, targeting main prefectures which might be damaged with reference to the assumed losses or damaged due to potential immediate earthquakes by the Non-life Insurance Rating Organization of Japan.

About Japan Earthquake Reinsurance Co.,Ltd (JER)

Company's features

In accordance with the promulgation of the concerning Earthquake Insurance Law No.73,May 18,1966 and also following the launch of sales of dwelling earthquake insurance to be written in conjunction with dwelling and shop-owners comprehensive insurance policies, JER was established with share capital of 1,000,000,000 by the 20 domestic Japanese non-life insurance companies on May 30,1966.The Company was licensed for earthquake insurance business and started its operation on June 1,1966.

Dwelling earthquake insurance depends on such a reinsurance system (safety net as it were) as joined by the government, non-life insurance companies and JER so that insurance claims can be paid to policyholders without fail.

The insurance premium paid by policyholders are separated from non-life insurance companies, and managed and operated by the government and JER.

JER is thus in the center of reinsurance system, going through reinsurance procedures among the government, non-life insurance companies and ourselves, and manages and operates the insurance premium paid by policyholders as sole earthquake reinsurance company in Japan.

☞ For details of reinsurance mechanism, see p.8 Mechanism of reinsurance and p.38 Glossary.

Shareholders and shares

❶ Top 10 shareholders

(As of March 31, 2006)

Shareholder	No. of shares owned (1,000 shares)	Percentage of shares owned (%)
Tokio Marine & Nichido Fire Insurance Co., Ltd.	537	26.9
Mitsui Sumitomo Insurance Co., Ltd.	338	16.9
Sompo Japan Insurance Inc.	321	16.1
Nippon Koa Insurance Co., Ltd.	208	10.4
Aioi Insurance Co., Ltd.	153	7.7
Fuji Fire and Marine Insurance Co., Ltd.	123	6.2
Nissay Dowa General Insurance Co., Ltd.	102	5.1
The Toa Reinsurance Co., Ltd.	93	4.7
Nisshin Fire & Marine Insurance Co., Ltd.	61	3.1
The Kyoei Fire & Marine Insurance Co., Ltd.	34	1.7

❷ Capital

(Unit: yen in billion)

Year	As of the end of fiscal 2003	As of the end of fiscal 2004	As of the end of fiscal 2005
Capital	1	1	1

❸ Sharers

(As of March 31, 2006)

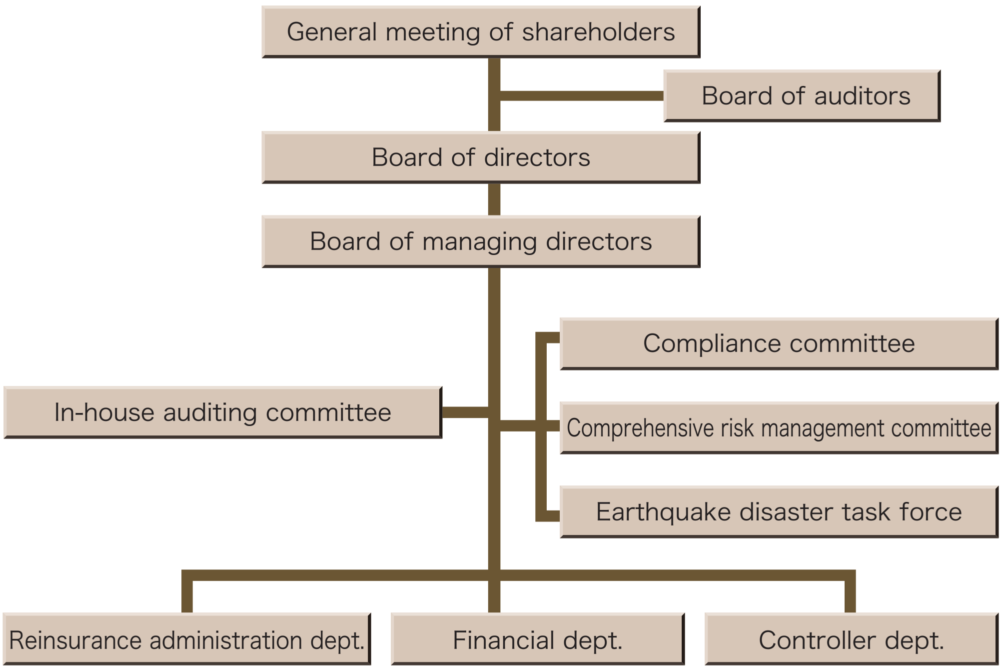
Sum of shares to be issued	2 million shares
Sum of issued shares	2 million shares
No. of shareholders	12

❹ Basics

When to hold a general meeting of shareholders	A regular general meeting of shareholders is held within 4 months after April 1 every year.
Date of settlement	March 31 every year
Public announcement	By our internet homepage (http://www.nihonjishin.co.jp/)

Organization

(As of April 1, 2006)



Directors (full-time)

(As of June 30, 2006)

Post	Name / Date of birth	Career
Chairman (representative director)	**Shozo Wakabayashi** (November 23, 1943)	April 1967: Joined the Ministry of Finance (currently Finance Ministry) June 1998: Took office as administrative vice minister. Okinawa Development Agency (currently Calinet office) July 2001: Took office as managing director, Japan Securities Dealers Association June 2004: Took office as chairman of JER (present post)
President (representative director)	**Akihiko Mori** (August 3, 1943)	April 1967: Joined Tokio Marine Fire Insurance Co., Ltd. (currently Tokio Marine & Nichido Fire Insurance Co., Ltd.) June 2001: Took office as vice president of the above. April 2002: Took office as vice president, Millea Holdings. Inc. June 2003: Took office as managing director, JER June 2004: Took office as president, JER (present post)
Managing director (representative director)	**Tatsuro Yoshida** (April 30, 1948)	April 1972: Joined Yasuda Fire Marine Insurance Co., Ltd. (currently Sompo Japan Insurance Inc.) July 2002: Took office as executive officer, Sompo Japan Insurance Inc. June 2004: Took office as managing director, JER (present post)
Managing director (representative director)	**Tsuyoshi Suzuki** (June 3, 1944)	April 1968: Joined Sumitomo Marine Fire Insurance Co., Ltd. (currently Mitsui Sumitomo Insurance Co., Ltd.) October 2001: Took office as managing director, Mitsui Sumitomo Marine Kirameki Life Insurance Co., Ltd. June 2005: Took office as managing director, JER (present post)
Corporate auditor	**Kentaro Takenaka** (May 5, 1939)	April 1963: Joined Japan Non-Life Insurance Association. June 2000: Took office as managing director of the above June 2004: Took office as full-time auditor, JER (present post)

Employees

(As of March 31. 2006)

No. of employees	Average age	Average years of service	Average annual salary
21	41.2 years old	11.8 years	7,773,808 yen

Note 1: The number of employees is that of the workers.
Note 2: The average annual salaries include bonuses and overtime pay.
Note 3: The employees include no employer cum director, those on leave of absence from work and temporary workers.

Others

Remuneration for the directors

The amount of remuneration paid to the directors in fiscal 2005 came to 71 million yen.

Remuneration for the accounting firm

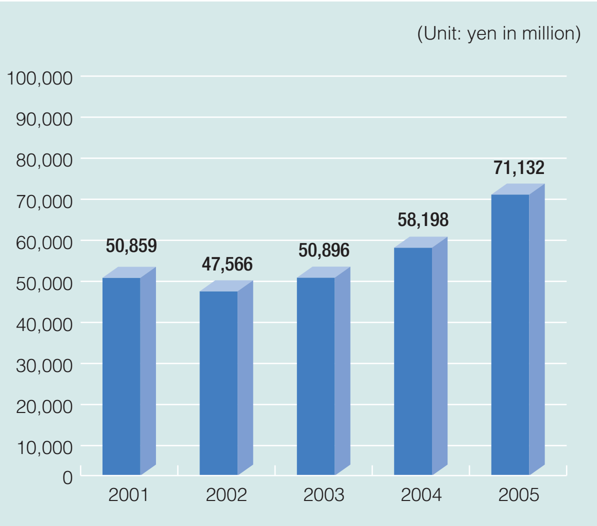
The amount of remuneration paid to Chuo Aoyama Accounting Firm in fiscal 2005 came to 7 million yen.

JER's present conditions

Typical management indicators

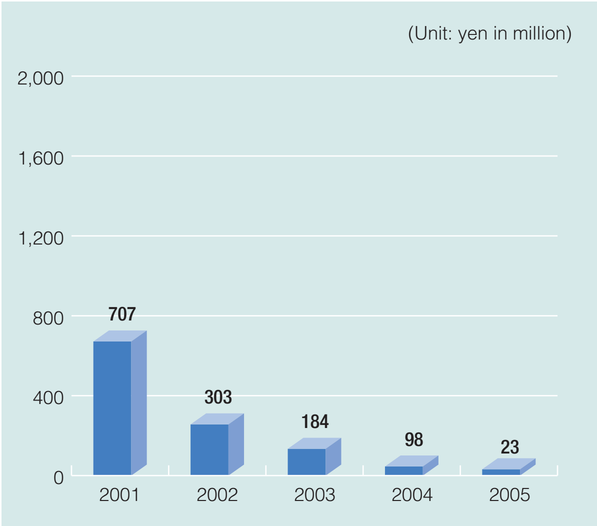
More and more earthquake insurance contracts have been entered into, and the net premiums written recorded a 22.2% increase over the previous year. In addition, the assets are being operated by highly liquid and high-rate securities for the payment of reinsurance money.

Net premiums written



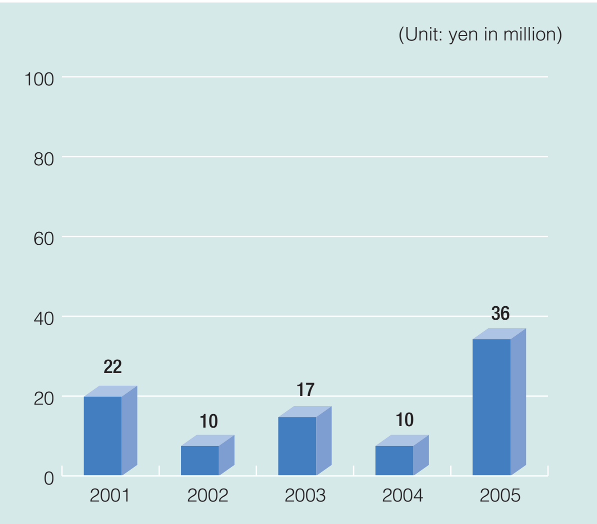
Net premiums written result from the deduction of reinsurance premiums of ceded reinsurance contracts from premiums written of assumed premiums written

Ordinary profit



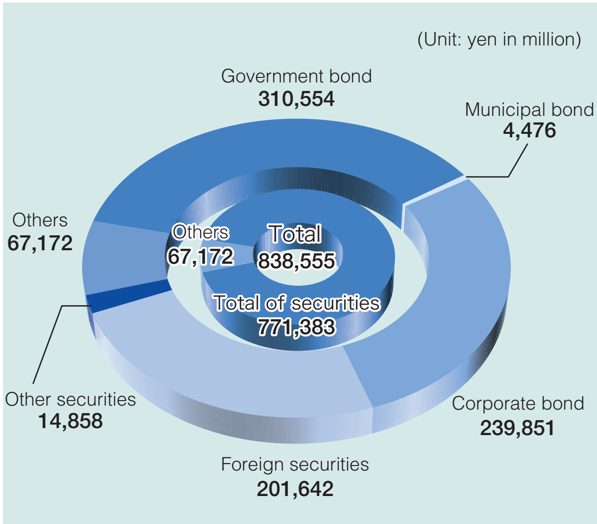
Ordinary profit = ordinary income – ordinary expenses

Net income



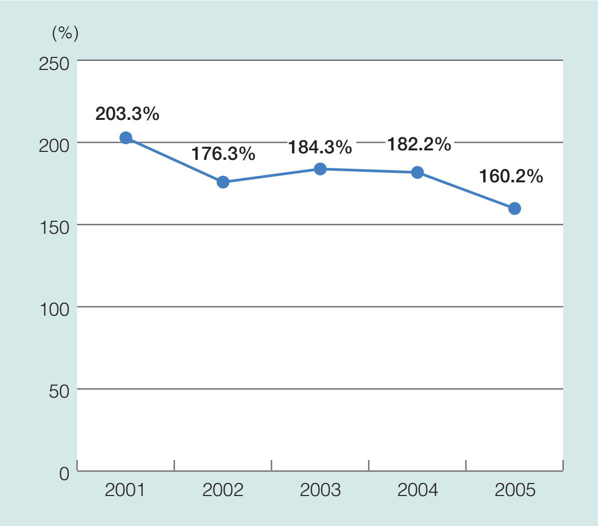
Net profit = ordinary incomes ± extra ordinary gains and losses ± corporate income taxes, local taxes and deferred income taxes

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

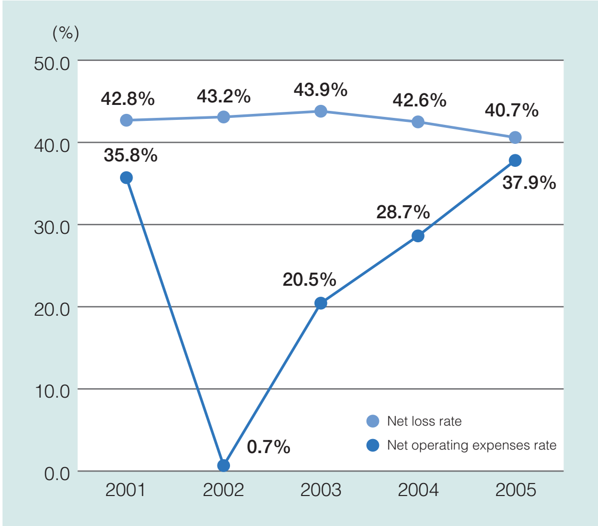


The total assets are composed of cash, deposits, securities, property and other assets, as shown in B/S ASSETS.

Solvency-margin ratio



Net loss ratio Net operating expenses 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 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

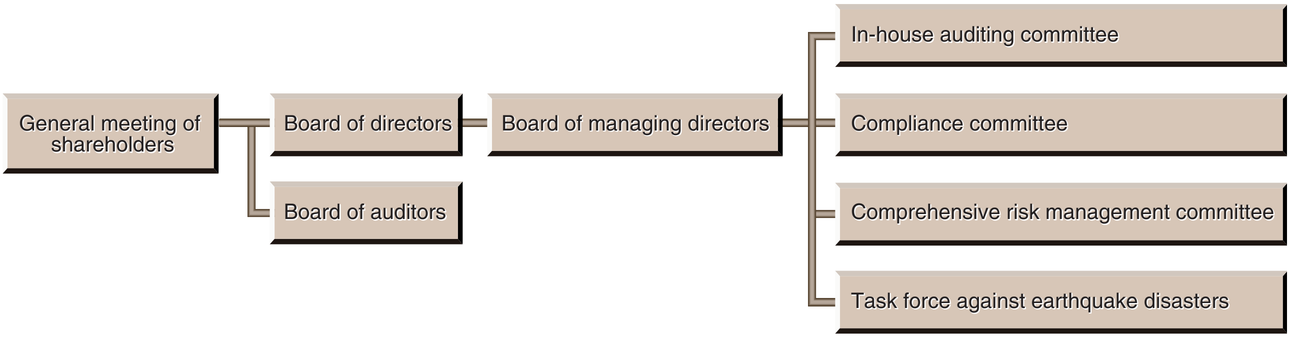
11 Taking measures for the improving of the earthquake insurance system
12 Conducting disposition of loss adjustment expenses from risk reserves

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 facilitate 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.

Facts

Business conspectus

Accounting conspectus

Glossary

Business conspectus

1. Business results in the last fiscal year

The number of earthquake insurance contracts and premiums written continued to be on the increase in fiscal 2005 mainly because earthquakes that happened, including the Fukuoka-ken Seiho-oki earthquake, aroused more attention than ever among people to natural disasters. As a result, the number of payments of earthquake insurance claims and insurance premiums marked increase over the previous year.

In the meantime, safety and liquidity came first in operating the assets, followed by earnings, under interest rate fluctuations to enable us to be well prepared for the payment of reinsurance claims.

(1) Earthquake insurance results in outline

a. Premiums written and insurance claims paid 3① 1, 3

Media coverage and occurrence of earthquakes made people more interested in or aware of, earthquake insurance, which served as a tail wind to let the net premiums written reach 71.1 billion yen in the current fiscal year.

Insurance claims paid came to 24.6 billion yen to compensate damages caused by earthquakes such as Fukuoka-ken Seiho-oki earthquake.

b. Underwriting reserves 3 ⑤

This resulted in that the risk reserves added amounted to 31 billion yen, a total of the net premiums written held 27.9 billion yen given by deducting the assumed insurance and held of commissions from the net premiums written and a profit of 3 billion yen from operation.

The risk reserves at the end of the current term came to 378.7 billion yen after the ongoing insurance claims were paid, the outstanding claims calculated in the previous year were returned and the risk reserves were drawn in the past year by 8 billion yen. The underwriting reserves at the end of the current term amounted to 450.8 billion yen after adding unearned premium reserves and refunded reserves to the risk reserves.

c. Entrusted reserves

Designated as entrusted reserve from the earthquake insurance account, the entrusted reserves for the year reached 377.3 billion yen by adding net premiums written and profit from investment of 23.4 billion yen and drawing advertisement / publicity expenses of 500 million yen.

(2) Investments in outline 3 ⑥

It was expected that the business situation remained at a phase of adjustment in the first half of the year and BOJ's quantitative easing of monetary policy would be protracted, with the result that the interest rate of 10-year government bond went down from the 1.3% level at the beginning of the fiscal year to the 1.1% level in June. The Japanese government and Bank of Japan declared in August, however, that the Japanese economy had escaped from the landing, letting people begin to feel optimistic about the domestic economy. While the short- and mid-term interest rates were on the increase, the quantitative easing policy was abandoned in March, leading to a sharp rise in interest rate to the 1.7% level at the end of fiscal year. The dollar rose about 10 yen and the Euro dollar about 4 yen against the yen over the previous year on the foreign exchange market partly because there was observed a wider difference in interest rate among the United States of America, European countries and Japan. Under such circumstances, we operated the assets with utmost emphasis on safety and liquidity and then profitability. As a result, the profits from investment before tax reached 3 billion yen in business account and in entrusted reserve account respectively.

(3) Current profit and loss

The net income amounted to 36 million yen after calculating interests, dividend income and corporate taxes. The profit was added to the retained earnings brought forward from last year in the amount of 520 million yen, with the result that the unappropriated retained earnings for the year came to 550 million yen.

Since a direct writing insurance company reported, in addition, to JER that they had failed to add up reinsurance, we added up the reinsurance of the past year to that of the current year. This brought a total of net premiums written of 203 million yen.

2. Indicators showing the main business results over the last five fiscal years

(Unit: Yen in million)

Division \ Fiscal Year	2001	2002	2003	2004	2005
Net premiums written (percentage change over the previous term (△)	50,859 (△3.4%)	47,566 (△6.5%)	50,896 (7.0%)	58,198 (14.3%)	71,132 (22.2%)
Ordinary incomes (percentage change over the previous term (△)	73,430 (7.5%)	58,460 (△20.4%)	66,352 (13.5%)	71,856 (8.3%)	107,868 (50.1%)
Ordinary expenses (percentage change over the previous term (△)	72,722 (7.3%)	58,156 (△20.0%)	66,167 (13.8%)	71,758 (8.4%)	107,845 (50.3%)
Ordinary profit (percentage change over the previous term (△)	707 (32.5%)	303 (△57.1%)	184 (△39.3%)	98 (△46.7%)	23 (△76.4%)
Net income (percentage change over the previous term (△)	22 (△34.5%)	10 (△55.6%)	17 (74.2%)	10 (△40.5%)	36 (243.6%)
Common stock (sum of shares issued)	1,000 (2 mil. shares)	1,000 (2 mil. shares)	1,000 (2 mil. shares)	1,000 (2 mil. shares)	1,000 (2 mil. shares)
Net assets	1,569	1,577	1,579	1,587	1,605
Total assets	681,736	726,458	761,594	804,333	838,555
Underwriting reserves (percentage change over the previous term (△)	360,778 (6.6%)	391,482 (8.5%)	412,968 (5.5%)	415,802 (0.7%)	450,892 (8.4%)
(of the balance, risk reserve balance) (percentage change over the previous term (△)	312,523 (6.2%)	341,675 (9.3%)	359,772 (5.3%)	355,813 (△1.1%)	378,731 (6.4%)
Loans (percentage change over the previous term (△)	– (–)	– (–)	– (–)	– (–)	– (–)
Securities (percentage change over the previous term (△)	618,296 (14.0%)	652,210 (5.5%)	682,285 (4.6%)	734,046 (7.6%)	771,383 (5.1%)
Solvency-margin ratio	203.3%	176.3%	184.3%	182.2%	160.2%
Dividend propensity	–%	–%	–%	–%	–%
No. of employees	20	20	17	18	21

Note:
As seen in Section 4, Article 3, Order to specify divisions, provided for in Section 2, Article 132, Insurance Business Law, our solvency-margin ratio is not supposed to be used as criterion to enable the administrative authorities to trigger an order for improvement. For detail, see p.17

We conduct no trust business.

3. Indicators showing the business results in the last 3 fiscal years

❶ Indicators showing the main business results

1. Net premium written

Item: earthquake

(Unit: Yen in million)

Division \ Fiscal Year	2003	2004	2005
Ceded insurance premiums (A)	108,028	120,972	143,493
Surrender value (B)	1,045	1,082	1,440
Assumed net premiums written (A-B)	104,993	117,942	139,621
Reinsurance premiums ceded (C)	54,096	59,744	68,488
Net premiums written (A-B-C)	50,896	58,198	71,132

Note:
1: Surrender value: Surrender value of receiving reinsurance.
2: Net receiving premiums: Produced by deducting surrender value from receiving premiums.
3: Net premium written: Produced by deducting paid reinsurance premium ceded from net reinsurance premiums.

2. Underwriting profit

(Unit: Yen in million)

Division \ Fiscal Year	2003	2004	2005
Underwriting incomes	54,678	61,995	91,001
Underwriting expenses	54,097	61,515	90,580
Sales and general administrative expenses	427	401	421
Other incomes and expenses	△154	△78	–
Underwriting profit	–	–	–

Note:
1: The above sales and general administrative expenses are those relating to the underwriting of insurances mentioned in the sales and general administrative expenses in a statement of profits and losses.
2: Other incomes and expenses are those equivalent to corporate taxes mentioned in a statement of earthquake insurance profits and losses.

3. Net claims paid

Item: earthquake

(Unit: Yen in million)

Division \ Fiscal Year	2003	2004	2005
Assumed net claim paid (A)	9,682	15,987	24,662
Reinsurance claims recovered (B)	–	–	–
Net claims paid (A-B)	9,682	15,987	24,662

Note:

1: Assumed Net claim paid: Produced by deducting surrender value from ceded insurance money paid.

2: Net claims paid: Produced by deducting reinsurance claims recovered by ceded contract from assumed claim paid.

❷ Indicators relating to insurance contracts

1. Net loss ratio, net expense ratio and their added ratio

(Unit: Yen in million)

Division \ Fiscal Year	2003	2004	2005
Net loss ratio	20.5%	28.7%	37.9%
Underwriting expenses	22,345	24,804	29,982
Insurance related underwriting and general administrative expenses	(427)	(401)	(421)
(Agency commissions and brokerage fees)	(21,918)	(24,403)	(28,560)
Net expense ratio	43.9%	42.6%	40.7%
Added ratio	64.4%	71.3%	78.6%

Note:

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

2: Net expense ratio: (Agency commissions and brokerage fees + Insurance related underwriting and general administrative expenses) ÷ net premiums written

3: Added ratio: Net loss ratio + net expense ratio

2. Rate of premiums written by domestic and overseas contracts

Division \ Fiscal Year	2003	2004	2005
Domestic contract	100%	100%	100%

3. No. of reinsurers that ceded insurance contracts and top 5 reinsurers for ceded reinsurance premiums

No. of reinsurers that ceded insurance contracts	Rate of top 5 reinsurers' ceded insurance premiums
19	77.9%

Note:

The number of reinsurers that ceded insurance contracts is that of those who ceded treaty reinsurance contracts amounting to 10 million or more yen.

Nothing is mentioned about unearned claims paid.

Nothing is mentioned about the rate of damage occurrence, the expenses ratio and rate of sum total before ceded insurance deduction.

Ratio of ceded insurance premiums by rating does not apply to earthquake insurance.

We pay no contractor dividend.

❸ Indicators relating to accounting

1. Amounts of outstanding claims and underwriting reserves

(Unit: Yen in million)

Division \ Year	As of the end of fiscal 2003	As of the end of fiscal 2004	As of the end of fiscal 2005
Outstanding claims	327	17,878	1,104
Underwriting reserves	412,968	415,802	450,892
Total	413,296	433,681	451,997

2. Detail Listing of Liability Reserves

(Unit: Yen in million)

Division	Balance as of the end of fiscal 2004	Amount of increase in fiscal 2005	Amount of decrease in fiscal 2005		Balance as of the end of fiscal 2005	Remarks
			Use per object	Others		
Reserve for ordinary bad debts	–	–	–	–	–	
Reserve for individual bad debts	–	–	–	–	–	
Reserve for specific foreign loans	–	–	–	–	–	
Accured severance benefits	72	22	5	5	83	
Reserve for officer retirement allowances	–	7	–	–	7	
Reserve for bonus payment	13	14	13	–	14	
Reserve for price fluctuation	0	7	–	–	7	
Total	86	52	19	5	113	

3. Common Stock

(Unit: Yen in million)

Division			Balance as of the end of fiscal 2004	Amount of increase in fiscal 2005	Amount of decrease in fiscal 2005	Balance as of the end of fiscal 2005
Common stock			1,000	–	–	1,000
	Issued stock	Ordinary stock	(2 mil. stock)	–	–	(2 mil. stock)
			1,000	–	–	1,000
		Total	(2 mil. stock)	–	–	(2 mil. stock)
			1,000			1,000
Legal reserve and appropriated retained earnings		(Legal reserve)	1	–	–	1
		Appropriated retained earnings		–	–	
		Special reserve	17	–	–	17
		Special reserve for price fluctuation	39	–	–	39
		Total	57	–	–	57

Note:

The number of owned shares was 11,400 as of the end of fiscal 2005.

4. Business expenses (inclusive of loss adjustment)

(Unit: Yen in million)

Division \ Fiscal Year	2003	2004	2005
Personnel expenses	352	420	453
Physical expenses	1,090	1,014	2,512
Taxes / contributions	139	159	195
Agency commissions and brokerage fees	21,918	24,403	28,560
Total	23,501	25,998	31,722

Note:

The business expenses are a total of loss adjustment expense, sales and general administrative expenses, agency commissions and brokerage fees as shown in a statement of profit and loss.

5. Profit on sale of securities by category

(Unit: Yen in million)

Division \ Fiscal Year	2003	2004	2005
Government bonds	26	35	92
Foreign securities	146	6	–
Total	172	41	92

6. Loss on sale of securities by category

(Unit: Yen in million)

Division \ Fiscal Year	2003	2004	2005
Government bonds	92	10	288
Foreign securities	51	221	401
Total	143	231	689

7. Securities appraisal loss by category

(Unit: Yen in million)

Division \ Fiscal Year	2003	2004	2005
Government bonds	–	–	–
Foreign securities	–	–	–
Total	–	–	–

8. Depreciation expenses by category

(Unit: Yen in million)

Asset kind	Acquisition cost	Amount of depreciation in fiscal 2005	Aggregated depreciations	Balance as the end of fiscal 2005	Rate of aggregated depreciations %
Buildings	92	3	50	42	54.6
(for business)	(92)	(3)	(50)	(42)	(54.6)
(for investment)	(–)	(–)	(–)	(–)	(–)
Equipment	21	0	18	2	86.5
Others	9	0	2	6	28.4
Total	124	5	72	51	58.2

9. Loss from disposal of property and equipment

(Unit: Yen in million)

Division \ Fiscal Year	2003	2004	2005
Property	–	–	–
(Land)	(–)	(–)	(–)
(Building)	(–)	(2)	(–)
Equipment	0	–	–
Total	0	2	–

No mention is made about the level of underwriting reserves because there is no target contract.

Mention about fluctuations of ordinary profit or written loss over increase in loss ratio is omitted because insurance claims are offset by disposition of underwriting reserves.

Nothing is to be mentioned about loan write-off and profit from property and equipment.

❹ Special deposit premium account

Nothing is to be mentioned.

❺ Earthquake insurance underwriting reserves by category

(Unit: Yen in million)

Division \ Year	As of the end of fiscal 2003	As of the end of fiscal 2004	As of the end of fiscal 2005
Risk reserve	359,772	355,813	378,731
Repayment reserve	3,297	3,303	2,639
Unearned premium reserve	49,898	56,685	69,521
Total	412,968	415,802	450,892

❻ Investments

1. Investments policy

Because we have to pay a huge amount of claims in a prompt manner in case of a natural disaster such as a heavy earthquake, we put in principle the highest priority on safety and liquidity in operating the assets, followed by profitability to increase risk reserves. The risk management division is engaged in grasping and controlling risks of all kinds, independently of the transactions execution division.

2. Investments in outline

Deposits

(Unit: Yen in million)

Division \ Year	As of the end of fiscal 2003	As of the end of fiscal 2004	As of the end of fiscal 2005
Deposits	44,066	28,470	38,026
(Ordinary deposit)	(15,736)	(1,140)	(10,696)
(Time deposit)	(28,330)	(27,330)	(27,330)

Total assets and investments assets

(Unit: Yen in million)

Division \ Fiscal Year	2003		2004		2005	
		Percentage composition (%)		Percentage composition (%)		Percentage composition (%)
Deposits	44,066	5.8	28,470	3.5	38,026	4.5
Call loans	–	–	15,000	1.9	–	–
Monetary receivable bought	10,994	1.4	6,297	0.8	1,799	0.2
Money trust	11,794	1.5	9,173	1.1	15,528	1.9
Securities	682,285	89.6	734,046	91.3	771,383	92.0
Buildings	43	0.0	45	0.0	42	0.0
Total of investments assets	749,185	98.4	793,033	98.6	826,779	98.6
Total assets	761,594	100.0	804,333	100.0	838,555	100.0

3. Amount of interest dividend received and yield on investment assets (income yield)

(Unit: Yen in million)

Division \ Fiscal Year	2003		2004		2005	
		Percentage composition (%)		Percentage composition (%)		Percentage composition (%)
Deposits	56	0.15	85	0.18	91	0.20
Call loan	0	0.05	0	0.05	0	0.05
Monetary receivables bought	15	0.18	14	0.17	4	0.12
Money trust	117	0.95	75	0.78	86	0.57
Securities	9,199	1.39	9,140	1.30	10,307	1.40
Building	–	–	–	–	–	–
Total	9,389	1.30	9,315	1.21	10,490	1.31

Note:

Yield on investments (income yield): indicator showing the result of investment assets from a point of income (interest and dividend income) (which has been disclosed)

The numerator is composed of interest and dividend income from operating the assets while the denominator is an acquisition cost based yield.

Numerator = Interest and dividend income (including the amount equivalent to interest and dividend income of profit (or loss) from monetary trust operation)

Denominator = Acquisition cost or depreciation based average balance

4. Asset management yield (realized yield)

(Unit: Yen in million)

Division \ Fiscal Year		2004			2005		
		Amount of numerator	Amount of denominator	Yield on working assets (%)	Amount of numerator	Amount of denominator	Yield on working assets (%)
Deposits		85	48,809	0.18	91	46,885	0.20
Call loan		0	80	0.05	0	208	0.05
Bond trading with repurchase agreement		–	–	–	–	–	–
Monetary receivables bought		14	8,425	0.17	4	3,918	0.12
Commodity securities		–	–	–	–	–	–
Money trust		83	9,633	0.87	270	15,260	1.77
Securities		8,932	704,877	1.27	9,595	737,410	1.30
	Public and corporate bonds	4,837	548,463	0.89	4,051	548,823	0.74
	Stocks	–	–	–	–	–	–
	Foreign securities	4,060	150,782	2.69	5,594	178,579	3.13
	Other securities	△1	5,631	△0.03	△51	10,007	△0.52
Loan		–	–	–	–	–	–
Buildings		–	48	–	–	45	–
Financial derivative		△1,294	–	–	△3,457	–	–
Others		86	–	–	105	–	–
Total		7,907	771,874	1.02	6,609	803,728	0.82

Note:

Asset management yield (realized yield): Indicator to show the result of managing of assets from a point of contribution to the current profit and loss. The numerator is realized profit and loss while the denominator is an acquisition cost based yield.

Numerator = profit from asset management + investment income on savings premiums – expenses of assets management

Denominator = acquisition cost or writing-off cost based average balance

5. Market-price based overall yield (for reference)

(Unit: Yen in million)

Division \ Fiscal Year	2004 Amount of numerator	2004 Amount of denominator	2004 Yield on working assets (%)	2005 Amount of numerator	2005 Amount of denominator	2005 Yield on working assets (%)
Deposits	85	48,809	0.18	91	46,885	0.20
Call loan	0	80	0.05	0	208	0.05
Bond trading with repurchase agreement	–	–	–	–	–	–
Monetary receivables bought	14	8,425	0.17	4	3,918	0.12
Commodity securities	–	–	–	–	–	–
Money trust	62	9,827	0.63	495	15,434	3.21
Securities	7,407	711,706	1.04	△5,171	742,714	△0.70
Public and corporate bonds	5,315	553,069	0.96	△7,147	553,869	△1.29
Stocks	–	–	–	–	–	–
Foreign securities	2,164	153,045	1.41	2,021	178,946	1.13
Other securities	△71	5,591	△1.29	△45	9,897	△0.46
Loans	–	–	–	–	–	–
Buildings	–	48	–	–	45	–
Financial derivative	△1,294	–	–	△3,457	–	–
Others	86	–	–	105	–	–
Total	6,361	778,897	0.82	△7,931	809,205	△0.98

Note:

Market-price based overall yield: Indicator showing the efficiency of operation on a market price basis. The numerator reflects realized profit and loss, and fluctuation in difference in market price appraisal while the denominator is market-price based yield.

Numerator = (income from operated assets management + investment income on savings premium – expenses for assets management) + (after-tax unrealized gain for the year – after-tax unrealized gain for previous year)* + fluctuation in deferred hedge profit and loss

Denominator = acquisition cost or write-off based average balance + after-tax unrealized gain for previous year of other securities + profit and loss for the previous year related to securities for transaction

*Based on the amount before tax effect deduction

6. Balance, percentage composition and yield of Foreign Loans & Investments

(Unit: Yen in million)

Division \ Year	As of the end of fiscal 2003	Percentage composition (%)	As of the end of fiscal 2004	Percentage composition (%)	As of the end of fiscal 2005	Percentage composition (%)
Foreign currency denominated						
Foreign public and corporate bonds	99,802	77.8	137,611	82.7	167,736	83.2
Yen denominated						
Foreign public and corporate bonds	28,490	22.2	28,709	17.3	33,905	16.8
Total	128,293	100.0	166,320	100.0	201,642	100.0
Yield on foreign loans & investment						
Investments assets yield (income yield)	2.94%		2.84%		3.36%	
Assets management (realized yield)	3.03%		2.69%		3.13%	
Comprehensive market price yield (for reference)	2.60%		1.41%		1.13%	

Note:

1. Of the yield on foreign loans & investments, investment assets yield was calculated in the same manner as 3 investment income and yield on investment assets (income yield) in connection with the assets involving foreign investment.
2. Of the yield on foreign investments, assets management yield was calculated in the same manner as 4 assets management yield (realized yield) in connection with the assets involving foreign investment.

7. Balance of securities by category and percentage distribution

(Unit: Yen in million)

Division \ Year	As of the end of fiscal 2003	Percentage composition (%)	As of the end of fiscal 2004	Percentage composition (%)	As of the end of fiscal 2005	Percentage composition (%)
Government bonds	204,373	30.0	256,145	34.9	310,554	40.3
Municipal bonds	21,453	3.1	17,940	2.4	4,476	0.6
Corporate bonds	323,201	47.4	287,238	39.1	239,851	31.1
Stocks	–	–	–	–	–	–
Foreign securities	128,293	18.8	166,320	22.7	201,642	26.1
Other securities	4,963	0.7	6,401	0.9	14,858	1.9
Load receivable in securities	–	–	–	–	–	–
Total	682,285	100.0	734,046	100.0	771,383	100.0

8. Yield on securities held

(Unit: %)

Division \ Fiscal Year	2003	2004	2005
Investment assets yield (income yield)			
Public & corporate bonds	1.07	0.88	0.78
Stocks	–	–	–
Foreign securities	2.94	2.84	3.36
Other securities	0.25	0.28	0.56
Total	1.39	1.30	1.31
Assets operation yield (realized yield)			
Corporate bonds	1.06	0.89	0.74
Shares	–	–	–
Foreign securities	3.03	2.69	3.13
Other securities	△0.22	△0.03	△0.52
Total	1.39	1.27	0.82
Comprehensive market price yield (for reference)			
Public & Corporate bonds	0.21	0.96	△1.29
Stocks	–	–	–
Foreign securities	2.60	1.41	1.13
Other securities	△0.50	△1.29	△0.46
Total	0.62	1.04	△0.98

9. Balance Current Maturity of securities by category

As of the end of fiscal 2004

(Unit: Yen in million)

Division	Up to 1 year	1 over up to 3 years	3 over up to 5 years	5 over up to 7 years	7 over up to 10 years	Over 10 years	Total
Government bonds	58,281	56,205	116,838	194	–	24,625	256,145
Municipal bonds	13,553	–	4,387	–	–	–	17,940
Corporate bonds	86,144	106,893	90,992	3,004	203	–	287,238
Stocks	–	–	–	–	–	–	–
Foreign securities	22,301	45,528	95,223	3,267	–	–	166,320
Other securities	913	–	–	–	1,497	3,990	6,401
Loan receivable in securities	–	–	–	–	–	–	–
Total	181,194	208,626	307,442	6,466	1,700	28,616	734,046

As of the end of fiscal 2005

(Unit: Yen in million)

Division	Less than 1 year	1 to less than 3 years	3 to less than 5 years	5 to less than 7 years	7 to less than 10 years	10 years or longer	Total
Government bonds	43,635	87,471	153,791	–	–	25,655	310,554
Municipal bonds	–	1,828	2,553	–	95	–	4,476
Corporate bonds	56,979	99,109	83,469	97	195	–	239,851
Stocks	–	–	–	–	–	–	–
Foreign securities	17,053	53,602	121,662	6,403	2,919	–	201,642
Other securities	–	–	5,066	–	2,986	6,805	14,858
Loan receivable in securities	–	–	–	–	–	–	–
Total	117,668	242,012	366,543	6,501	6,196	32,460	771,383

10. Property & Equipment by breakdown

(Unit: Yen in million)

Division \ Year	As of the end of fiscal 2003	As of the end of fiscal 2004	As of the end of fiscal 2005
Land	–	–	–
(for business)	(–)	(–)	(–)
(for investment)	(–)	(–)	(–)
Buildings	43	45	42
(for business)	(43)	(45)	(42)
(for investment)	(–)	(–)	(–)
Construction in progress	–	–	–
(for business)	(–)	(–)	(–)
(for investment)	(–)	(–)	(–)
Total of property	43	45	42
(for business)	(43)	(45)	(42)
(for investment)	(–)	(–)	(–)
Equipment	4	3	2
Total	48	48	45

There is nothing to be mentioned about the following 11 items:

1. Commodity securities
2. Average balance and sales amount of commodity securities
3. Amount of stocks held by type of business
4. Balance current maturity of loan by remaining life
5. Balance of loans by type of collateral secured
6. Balance and percentage distribution of loan by desinated use
7. Balance of loan by industry and its ratio to the total
8. Balance of loan by debtor size and its ratio to the total
9. Amount of loan & investment to public works (on a basis of newly undertaken loan)
10. Housing-related loan
11. Loan interests

Accounting conspectus

1. Accounts in the last 2 years

The president has confirmed for the reasons given below that the financial statements prepared on the following fiscal years contain no untrue mention and the process of preparing was considered proper by internal audit.

1. The administrative system has done the financial statements properly according to the division of duties, business handling rules and authorized power.
2. The internal audit depertment has reported to the board of directors that it found out that the process of preparing the financial statements was proper and left nothing to be indicated.

Of the documents to be put to the public inspection according to Item 1, Article 111, Insurance Business Law, in addition, the balance sheet, and profit and loss statement were audited by the auditors.

❶ Balance sheet

(ASSET)

(Unit: Yen in million)

Item \ Fiscal Year	2004 (As of March 31, 2005)		2005 (As of March 31, 2006)	
	Amount	Percentage distribution	Amount	Percentage distribution
Cash & deposits	28,470	3.5	38,026	4.5
Deposits	28,470		38,026	
Call loan	15,000	1.9	–	
Monetary receivable bought	6,297	0.8	1,799	0.2
Money trust	9,173	1.1	15,528	1.9
Securities	734,046	91.3	771,383	92.0
Government bonds	256,145		310,554	
Municipal bonds	17,940		4,476	
Corporate bonds	287,238		239,851	
Foreign securities	166,320		201,642	
Other securities	6,401		14,858	
Property & Equipment	48	0.0	45	0.0
Buildings	45		42	
Equipment	3		2	
Other assets	11,241	1.4	11,686	1.4
Reinsurance loan	8,032		8,172	
Accounts receivable	109		427	
Uncollected income	2,419		2,910	
Deposits	52		51	
Suspense payment	176		96	
Financial derivative	448		20	
Other assets	3		6	
Deferred tax assets	54	0.0	85	0.0
Total assets	804,333	100.0	838,555	100.0

(LIABILITIES)

(Unit: Yen in million)

Item \ Fiscal Year	2004 (As of March 31, 2005)		2005 (As of March 31, 2006)	
	Amount	Percentage distribution	Amount	Percentage distribution
Underwriting funds	433,681	53.9	451,997	53.9
Outstanding claims	17,878		1,104	
Underwriting reserves	415,802		450,892	
Entrusted reserves	354,483	44.1	377,390	45.0
Other liabilities	9,036	1.1	16,503	2.0
Reinsurance debts	4,920		5,390	
Corporate taxes payable	99		114	
Deposits payable	2		2	
Accrued amounts payable	746		702	
Suspense receipts	7		–	
Financial derivative	3,259		10,292	
Accrued serverance benefits	72	0.0	83	0.0
Reserves for directors' retirement benefit			7	0.0
Reserves for bonus payment	13	0.0	14	0.0
Price fluctuation reserves	0	0.0	7	0.0
After-tax unrealized gain in securities of earthquake insurance	5,458	0.7	△9,054	△1.1

(SHAREHOLDERS' EQUITY)

(Unit: Yen in million)

Item \ Fiscal Year	2004 (As of March 31, 2005)		2005 (As of March 31, 2006)	
	Amount	Percentage distribution	Amount	Percentage distribution
Common stock	1,000	0.1	1,000	0.1
Retained earnings	580	0.1	617	0.1
Legal reserve of retained earnings	1		1	
Voluntary reserves	56		56	
(Special reserves)	(17)		(17)	
(Special price fluctuation reserves)	(39)		(39)	
Unappropriated retained earnings for the year	522		559	
(Net income)	(10)		(36)	
After-tax unrealized gain in securities	11	0.0	△5	△0.0
Treasury Stock	△5	△0.0	△5	△0.0
Total shareholders' equity	1,587	0.2	1,605	0.2
Total liabilities and shareholders' equity	804,333	100.0	838,555	100.0

Notes for fiscal 2005

1. Appraisal standards and method of securities, and method of indication

(1) Of the other securities, those to which market price was applicable were appraised according to the market price on the term-end day.

(2) Of the other securities, those to which market price was not applicable were appraised according to basis of cost or write-off cost price using the moving-average method.

(3) As to the unrealized gain of assets corresponding to the underwriting reserves and entrusted reserves of earthquake insurance, the amount before tax effect deduction was indicated as after-tax unrealized gain in securities of earthquake insurance in LIABILITIES according to the pertinent Enforcement Rules of Insurance Business Act. As to other unrealized gain, the amount after tax effect deduction was all processed according to the direct capital injection method and indicated in SHAREHOLDERS' EQUITY. The calculation of sales price was based on the moving average method.

2. Appraisal standards and method of money trust

(1) In money trust exclusively operated centering on securities, the appraisal of securities operated as trust assets was done on the basis of market price.

(2) In money trust exclusively operated with a view to holding securities which were not intended to be operated or held to maturity, the appraisal of securities operated as trust assets was done in the same manner as other securities.

3. The appraisal of derivatives was done on the basis of market price.

4. The depreciation of property & equipment was done using the composite-line method.

5. Writing standards of reserves

(1) Reserve for bad debts

The reserves for bad debts are written as follows against loss from bad debts in accordance with the self-appraisal standard of assets and depreciation and reserve standards.

In connection with claims against debtors who have gone bankrupt legally and formally, including bankruptcy, special liquidation or disposition by suspension of business at a clearing house, or debtors who are substantially bankrupt, the rest of any of the claims deducting an estimated amount of disposable mortgage and a deductible amount by guarantee was appropriated for such reserves.

In connection with the other claims, the rate of bad debts calculated according to the past bad debts and other factors is multiplied by the amount of claims to appropriate for reserves.

In addition, all the claims are written after the finance depertment appraises the assets, and the result is audited by the management depertment independent of the finance depertment to appropriate the appraisal for reserves.

There are no assets, nevertheless, in the current term to be appropriate for reserves, and no writing is required.

(2) Reserves for employees' retirement

For employees' retirement and severance benefits, reserves were appropriated according to the retirement allowance liabilities at the end of the term and the estimated amount of pension assets. The retirement allowance liabilities were calculated using a simple method on a basis of the allowance to be supplied at the end of the term for any employee who retires for his / her own reasons.

On top of the above, 7 million yen is reserved as directors' retirement benefits to be paid at the end of the term according to the pertinent in-house rules. The directors' retirement benefits were conventionally written when they were paid, but we changed the related in-house rules at this term to write the benefits to be paid at the end of the term into the directors' retirement benefit reserves. With this, the benefits payable at the end of the terms has been written into the sales and general administrative expenses. As a result, the ordinary incomes and income before income tax were respectively reduced by 7 million yen over the previous terms. The directors' retirement benefit reserves are as specified in Article 43, Enforcement Rules of the Commercial Act.

(3) Accrued bonuses for employees

Accrued bonuses for employees' bonus were calculated according to the standards of estimated bonus payable.

(4) Reserves for price fluctuation

To prepare against loss from price changes of shares and others, reserves are appropriated according to Article 115, Insurance Business Law.

6. The conversion of assets and liabilities in foreign currency into Japanese currency is processed according to the accounting standards of transactions in foreign currency.

7. Taxes are excluded when doing accounts of consumption taxes and others.

8. The risk reserves contained in the underwriting reserves have been deposited according to the instructions of calculation of liability reserves by accumulating the amounts resulting from subtracting from the net premiums written and profit from operating the assets such an amount as equivalent to corporate taxes.

9. The transaction of finance lease other than the ownership of a lease item is transferred to the leaseholder is processed according to the method equivalent to that of ordinary lease transactions.

10. The accumulated depreciation of property & equipment was 69 million yen.

11. In addition to the equipment mentioned in B / S, some computers are used on a lease contract.

12. The total sum of deferred tax assets reached 89 million yen while the total sum of tax liabilities came to 3 million yen. The deferred tax assets are by breakdown an unpaid taxes amount of 41 million yen, a retirement benefit reserve of 30 million yen and a bonus reserve of 5 million yen. The deferred tax liabilities come mainly from an unrealized gain of 3 million yen of securities.

13. We started at this term to apply the accounting standards as to loss of fixed assets (Written opinions about setting the accounting standards as to loss of fixed assets issued on August 9, 2002 by the Corporate Accounting Council) and Guidelines to applying the accounting standards as to loss of fixed assets issued on October 31, 2003 as No. 6, corporate accounting standards application guideline). There are no fixed assets, however, to which the standards are applicable.

14. The amounts are indicated by rounding down any amount not reaching the unit as mentioned.

❷ PROFIT AND LOSS STATEMENT

(Unit: Yen in million)

Item \ Fiscal Year	2004 (from April 1, 2004 to March 31, 2005) Amount	2005 (from April 1, 2005 to March 31, 2006) Amount
Ordinary income & expenses		
Ordinary incomes	71,856	107,868
Underwriting incomes	61,995	91,001
Net premiums written	58,198	71,132
Payment reserve return	–	16,773
Investment income on savings premium, etc	3,796	3,095
Investment incomes	9,860	16,846
Interest and dividend incomes	9,240	10,403
Profit from operating monetary trust	79	376
Realized gain on sale of securities	41	92
Foreign exchange gain	4,208	8,964
Profit from other operations	86	105
Transfer of profit from Investment income on savings premiums	△3,796	△3,095
Other ordinary incomes	1	20
Ordinary expenses	71,758	107,845
Underwriting expenses	61,515	90,580
Net claims paid	15,987	24,662
Loss adjustment expenses	739	2,266
Agency commissions and brokerage fees	24,403	28,560
Provision for outstanding claims	17,550	–
Provision for underwriting reserves	2,834	35,089
Investment expenses	5,753	13,331
Loss from operating monetary trust	–	105
Realized loss on sale of securities	231	689
Loss on securities refundment	17	114
Financial derivative cost	5,503	12,422
Other operation cost	0	0
Sales and general administrative expenses	855	894
Other ordinary expenses	3,634	3,038
Interest paid	3,634	3,038
Ordinary income	98	23
Extraordinary gain & losses		
Extraordinary gain	0	–
Reversal of price fluctuation reserve return	0	–
Extraordinary losses	2	7
Loss from real estate and movables disposition	2	–
Provision for price fluctuation reserve	–	7
Income before taxes	96	15
Corporate income taxes and local taxes	96	0
Deferred income taxes	△10	△21
Net income	10	36
Retained earnings brought forward from last year	512	522
Unappropriated retained earnings for the year	522	559

Notes for fiscal 2005

1. See below for the net premiums written by breakdown.

Premiums written	139,621 (1 million yen)
Reinsurance money paid	68,488 (1 million yen)
Balance	71,132 (1 million yen)

(The income premiums include 203 million yen not registered.)

2. Net claims paid are as follows.

Claims paid	24,662 (1 million yen)
Balance	24,662 (1 million yen)

3. See below for the agency commissions and brokerage fees.

Commissions on reinsurance accepted	28,560 (1 million yen)
Balance	28,560 (1 million yen)

4. The interests and dividends income are given below by category.

Interests on deposits	91 (1 million yen)
Interests on call loan	0 (1 million yen)
Interests on monetary receivable bought	4 (1 million yen)
Interests on securities	10,307 (1 million yen)
Total	10,403 (1 million yen)

5. Paper profit / loss involved in the financial derivative expenses is a loss of 10,272 million yen.

6. The net income per share is 18.23 yen.
The basis for this calculation is such that the net income was 36 million yen, the net income accrued from ordinary shares was 36 million yen and the term average No. of ordinary shares amounted to 1 million 988 thousand.

7. The legal effective tax rate of the term was 36.21%, and the rate of burden of corporate taxes after applying tax effect was △134.11%. The difference is explained by breakdown as follows. The amount of write-off carried from publicity expenses related to risk reserve was △487.71%, the surplus of profit from operating unearned premium deposits was △406.71%, and carried tax loss was 718.81%.

8. Each amount is shown by omitting the figures not reaching the unit.

❸ Statement of cash flow

(Unit: Yen in million)

Item / Fiscal Year	2004 (from April 1, 2004 to March 31, 2005) Amount	2005 (from April 1, 2005 to March 31, 2006) Amount
Ⅰ. Cash flow from operating activities		
Net profit before net profit tax	96	15
Depreciation	5	5
Increase in outstanding claims	17,550	△16773
Increase in underwriting reserves	2,834	35,089
Increase in entrusted reserves	20,268	22,907
Increase in reserves for employees' retirement and severance benefits	8	10
Increase in directors' retirement benefit reserves	–	7
Increase in accrued bonuses for employees	1	1
Increase in reserve for price fluctuation	△0	7
Interests and dividend income	△9,240	△10,403
Gain or loss on investment in securities	207	711
Foreign exchange gain or loss	△6,280	△8,705
Gain or loss on disposal of property and equipment	2	–
Increase in other assets (other than invest and financial activities related)	△1,048	△377
Increase in other liabilities (other than invest and financial activities related)	459	418
Others	5,585	7,486
Subtotal	30,449	30,402
Interests and dividends received	9,410	10,019
Income tax paid	△103	△10
Net cash provided by operating activities	39,756	40,410
Ⅱ. Cash flow in investing activities		
Net increase in deposit at bank	1,000	–
Acquisition cost of monetary receivables bought	△14,589	△3,497
Proceeds from the sales or maturity of monetary receivables	20,287	7,796
Expenses for increase in monetary trust	–	△10,130
Proceeds from sales of money trust	2,600	4,000
Purchase of securities	△333,388	△332,403
Proceeds from sales and redemption of securities	285,744	288,186
Ⅱ ① Subtotal	△38,345	△46,049
(Ⅰ + Ⅱ ①)	(1,410)	(5,638)
Acquisition of property and equipment	△7	△5
Net cash used in investing activities	△38,352	△46,054
Ⅲ. Cash flow in financing activities	–	–
Ⅳ. Effect of exchange rate changes on cash and cash equivalents	–	–
Ⅴ. Net change in cash and equivalent	1,403	△5,643
Ⅵ. Cash and cash equivalents at beginning of the year	15,736	17,140
Ⅶ. Cash and cash equivalents at end of the year	17,140	11,496

Notes

1. Relation of cash and cash equivalents at the end of the year with the amounts mentioned in the related subject of the balance sheet.

(Unit: Yen in million)

	(As of March 31, 2005)	(As of March 31, 2006)
Cash & deposits	28,470	38,026
Call loan	15,000	–
Monetary receivables bought	6,297	1,799
Securities	734,046	771,383
Deposits of a depository period of 3 months or longer	△27,330	△27,330
Monetary receivables bought other than cash equivalent	△5,297	△999
Securities other than cash equivalent	△734,046	△771,383
Cash and cash equivalents	17,140	11,496

2. Funds (cash and cash equivalents) in the statement of cash flow statement are composed of cash on hand, savings that allow optional drawing and short-term investments such as time deposits readily realizable and of a good risk, a depository period of 3 months or shorter from acquisition to maturity or refundment.

❹ Distribution of net profits

(Unit: Yen in million)

Item / Fiscal Year	2003	2004	2005
Unappropriated retained earnings for the year	512	522	559
Retained earnings carried forward	512	522	559

❺ Dividend per stock and total assets per employee

(Unit: Yen in million)

Division / Fiscal Year	2003	2004	2005
Dividend per stock	–	–	–
Net income per stock	8.90	5.30	18.23
Dividend propensity	–	–	–
Net assets per stock	794.04	798.07	807.42
Total assets per employee	44,799	44,685	39,931

Note:

1. Net income per share comes from net income / term average No. of stocks
2. The number of own shares is deducted from producing information per stock
3. The total assets per employee come from the total assets at the end of the term / No. of employees at the end of the term.

2. Risk management credits

There is no mention about the following five items:

(1) Currently in bankruptcy
(2) Delinquent in payments
(3) Delinquent in payments more than 3 months
(4) Favorable loan revisions completed
(5) Total of risk management credit

3. Present conditions of loans involving trust with contact for replacement of losses

No mention is necessary.

4. Credits obligations based on debtor classification

There is no mention about the following four items:

(1) Bankrupt or bankrupt for all Intents and purposes
(2) On verge of bankruptcy
(3) Financial status needs careful monitoring
(4) Financial status normal

5. Conditions of solvency-margin ratio

(Unit: Yen in million)

Division	Year	As of the end of fiscal 2003	As of the end of fiscal 2004	As of the end of fiscal 2005
(A)	Total of solvency-margin	364,308	359,908	375,606
	Total of stockholders' equity (other than estimated outflow to the outside, deferred assets and after-tax unrealized gain in securities)	1,564	1,575	1,611
	Reversal for price fluctuation	0	0	7
	Catastrophe reserves	359,772	355,813	378,731
	Reversal for ordinary bad debts	–	–	–
	Variance of estimate for other securities (excluded deductions for Tax Consequences) unrealized gain / loss on securities available for sale	2,971	2,520	△4,743
	Unrealized gain loss included land holdings	–	–	–
	Funding instruments with a debt-like nature	–	–	–
	Items deductible	–	–	–
	Others	–	–	–
(B)	Total risk $\sqrt{R1^2+(R2+R3)^2}+R4+R5$	395,324	394,964	468,880
	General insurance risk (RI)	–	–	–
	Anticipated Rate of Return Risk (R2)	–	–	–
	Investment risk (R3)	7,543	7,190	7,676
	Default risk (R4)	7,751	7,744	9,193
	Catastrophe risk (R5)	380,030	380,030	452,010
(C)	Solvency-Margin ratio [(A)/{(B)x1/2}]x100	184.3%	182.2%	160.2%

Note:
The above amounts and figures were produced in accordance with Articles 86 and 87, Enforcement Rules of Insurance Business Act, and Bulletin No. 50 issued by the Ministry of Finance in 1996.

Solvency-margin ratio

Non-life insurance company deposit reserves in case that they pay insurance money for any insurance accident that happened or refund depository insurance at maturity. It is also necessary for them to maintain a satisfactory capability of payment or solvency even in case of unusual, unforeseeable risk, including a huge disaster or sharp drop in price of such assets as owned by them.
The rate of "Non-life insurance company's capability of payment by owned assets and reserves (A in the above table) over any risk unforeseeable (B in the above table)" is indicated as solvency-margin ratio (C in the above table) which is calculated according to the pertinent rules including Insurance Business Law.

[Unforeseeable risk] (Total of risks): Sum of 1~5

1. Risk on underwriting insurance: risk which might be caused by an insurance accident rate higher than normally predictable (other than risk involved in a huge disaster).
2. Anticipated ratio of Return Risk: risk which might be caused when actual yields from operation are lower than original at the time of calculating premiums of a depository insurance
3. Risk on assets : management risk which might be caused when the value of assets owned including securities changes in an unforeseeable manner.
4. Risk on management: risk which might be caused on business management in an unforeseeable manner, other than 1~3 and 5.
5. Risk involved in a huge disaster: risk which might be caused due to a huge disaster (such as the Great Kanto Earthquake) which is normally unforeseeable.

[Capability of payment by non-life insurance company owned capital and reserves] (Total of solvency-margin)
The total of capital owned by a non-life insurance company, reserves (price fluctuation, catastrophe reserve, securities and part of latent profit from land, and so on)

The solvency-margin ratio is one of the indicators used when the administrative authorities give a check to insurance companies for the soundness of management for supervising purposes. When the rate is 200% or higher, the insurance company is deemed as satisfactory in terms of payment capability of insurance money and so on.

◎JER has entered into a reinsurance contract with the government of Japan for earthquake insurance in accordance with Law concerning Earthquake Insurance. The law stipulates in addition that the government takes responsibility to make efforts to conduct good office and lend funds for the payment of insurance money. Because this is a form of special business, JER's solvency-margin ratio is not usable as a figure to enable the administrative authorities to trigger an order for improvement in spite of the above solvency-margin ratio, as provided for in Section 4, Article 3, Order to specify the division stated in Section 2, Article 132, Insurance Business Law.

Note: The article is as follows.
[In the event that an insurance company has entered into a reinsurance contract with the government as stated in Section 1, Article 3, Law concerning Earthquake Insurance (law No. 73, 1966), any order to be issued according to the listed division in Section 1 of the Article applicable to the insurance company shall be issued in accordance with the list of inapplicable division.]

6. Information on the market prices (acquisition cost or contract cost, market price and appraisal profit and loss) and others

❶ Securities

1. Other securities with market price

At the end of fiscal 2004 (Unit: Yen in million)

Division	Type	Acquisition cost	Registered amount in B/S	Difference
Securities with acquisition cost higher than registered in B/S	Public & corporate bonds	534,272	539,340	5,068
	Stocks	–	–	–
	Foreign securities	115,555	120,974	5,419
	Others	–	–	–
	Subtotal	649,827	660,315	10,487
Securities with acquisition cost not higher than registered in B/S	Public & corporate bonds	22,005	21,984	△21
	Stocks	–	–	–
	Foreign securities	49,057	45,345	△3,711
	Others	6,510	6,401	△109
	Subtotal	77,573	73,731	△3,842
Total		727,401	734,046	6,644

At the end of fiscal 2005 (Unit: Yen in million)

Division	Type	Acquisition cost	Registered amount in B/S	Difference
Securities with acquisition cost higher than registered in B/S	Public & corporate bonds	99,781	100,108	327
	Stocks	–	–	–
	Foreign securities	134,319	142,393	8,073
	Others	1,797	1,826	28
	Subtotal	235,898	244,328	8,430
Securities with acquisition cost not higher than registered in B/S	Public & corporate bonds	461,253	454,773	△6,480
	Stocks	–	–	–
	Foreign securities	60,483	59,248	△1,234
	Others	13,164	13,032	△131
	Subtotal	534,901	527,054	△7,846
Total		770,799	771,383	583

2. Other securities sold at the term

(Unit: Yen in million)

Type	Fiscal 2004			Fiscal 2005		
	Sales price	Total of profit on sale	Total of loss on sale	Sales price	Total of profit on sale	Total of loss on sale
Total	50,182	41	231	51,149	92	689

There is nothing to be mentioned about the following items:
1. Securities held for trading purposes
2. Securities to be held till maturity and with market price
3. Securities sold at the term which were to be held till maturity
4. Main contents of securities without market price and the amounts registered in B / S.

❷ Money trust

1. Money trust for investment

(Unit: Yen in million)

Type	As of end of fiscal 2004		As of end of fiscal 2005	
	Amount registered in B/S	Appraisal difference contained in profit/loss	Amount registered in B/S	Appraisal difference contained in profit/loss
Money trust	–	–	10,000	–

2. Money trust for maturity

Nothing to be mentioned.

3. Other money trusts with any other purpose than operation and maturity

(Unit: Yen in million)

Type	As of end of fiscal 2004			As of end of fiscal 2005		
	Acquisition cost	Amount registered in B/S	Difference	Acquisition cost	Amount registered in B/S	Difference
Money trust	9,000	9,173	173	5,130	5,528	398

❸ Information on transactions of derivatives

1. On the conditions of transactions

With a view to hedging risks due to possible changes in foreign exchange of assets in foreign currency, JER is engaged in dealing foreign exchange forward contracts and currency option transactions. In addition, we conduct over-the-counter securities option transactions so as to reduce interest fluctuation risks in connection with securities.

The derivative transactions we are engaged in have market risks due to market fluctuation. Most of them are done, however, to hedge the assets in kind, and it never happens that loss from the transaction in question is caused alone. In some cases, we use option transactions as to such securities as scheduled to be purchased. But risks are limited because we put a quantitative limit on such transactions.

Now that we transact with highly reliable financial institutions, we understand there is little credit risk such as non-fulfillment of a contract.

Our derivative transactions are checked by the risk management division independent of the transactions execution division, and the results of checks are regularly reported to the board of executive directors.

2. On market prices of transactions

A contract amount in a derivative transaction is nothing but a nominal contract amount or an assumed principal by calculation in such a transaction. The contract amount as such represents no market risk or credit risk.

3. Derivative transaction contract amounts, market price and appraisal profit and loss

(a) Currency related

(Unit: Yen in million)

Type	As of end of fiscal 2004				As of end of fiscal 2005			
	Contract amount	1 year or longer ones	Market price	Appraisal profit and loss	Contract amount	1 year or longer ones	Market price	Appraisal profit and loss
Transactions other than market ones								
Forward foreign exchange contract								
Currency used								
US dollar	58,274	20,078	58,768	△494	61,231	28,403	66,631	△5,400
Euro	69,390	31,730	71,698	△2,308	83,141	34,779	87,637	△4,496
Canadian dollar	–	–	–	–	2,872	1,211	3,246	△374
Total			130,467	△2,802			157,516	△10,272

Note: Calculating a market price

Foreign exchange forward contract: Foreign exchange rates depend on futures quotation.

(b) Securities related

(Unit: Yen in million)

Type	As of end of fiscal 2004				As of end of fiscal 2005			
	Contract amount	1 year or longer ones	Market price	Appraisal profit and loss	Contract amount	1 year or longer ones	Market price	Appraisal profit and loss
Transactions other than market ones								
Over-the-counter securities option transaction								
Currency used								
Call	5,000				–			
(Option premium)	(7)	–	16	△8	(–)	–	–	–
Total			–	△8			–	–

Note:

Calculating a market price is based on an option price calculation model.

Nothing to be mentioned more about information on market price and others.

Glossary
For an understanding of earthquake insurance

A

Amount Insured

The amount of insurance contract entered into by the insurance company and policyholder, which is the limit of the amount insured payable by the insurance company when an insurance accident occurs.

C

Ceding Insurer

The insurance company which cedes part or whole of its original insurance contract to spread risks.

Current price amount

A current price of a newly constructed building or house after deducting a depreciation according to the years of service.

D

Direct Insurer

An insurance company which directly enters into an insurance contract with a general contractor.

Direct insurance contract

An insurance contract entered into by an insurance company and a general contractor.

E

Excess of loss reinsurance

A type of reinsurance according to which an excess damage is compensated to a certain extent in the event that the amount of damage by an accident exceeds a certain limit.

H

Half loss

Half loss in earthquake insurance is such that when the purpose of insurance is a building and it is damaged by earthquake, tunami or eruption, the amount of damage to the main structures (foundation, pillars, walls and roof) reaches 20% or higher to 50% of the insurable value or the floor area of part of the building which was burnt or flooded away reaches 20% or higher to 70% of the total area of the building.

As to movables for living, half loss is such that the rate of damage reaches 30% or higher to 80% of the insurable value.

Household insurance

Insurance bought by an individual to respond to any possible risk at home, which is told from enterprise insurance. Household insurance includes fire and earthquake insurance on personal housing and movables for living and automobile insurance on home-use automobiles.

I

Insurable value

The value of any insurance purpose, land or in earthquake insurance when damage is caused.

Insurance interest

An interest or object to be insured. Buildings and movables for living are such objects in earthquake insurance.

L

Law of large numbers

When we observe many instances, we will know that there is law of large numbers. That is, as you throw a dice, you will find that there is a higher probability of 1 / 6 that the spot 1 is thrown. Even if the individual probabilities are not always constant, the probability comes near to a certain value. The probability of insurance accidents which gives basis to the calculation of premiums will be thus calculated according to law of large numbers.

Loss Ratio

Ratio of claims paid against income premiums during a certain term. Normally, the ratio is produced by adding loss adjustment expenses to the net claims paid and dividing the sum by the net premiums written.

N

Net premiums written

Insurance money produced by adjusting original insurance premium with reinsurance premium (by adding the premium of accepted reinsurance and deducting reinsurance premium), and by deducting depository premium and returns.

O

Operating expenses

Expenses required to conduct insurance business, which according to non-life insurance accounting, are composed of loss adjustment expenses, sales & general administrative expenses, agency commissions and brokerage fees.

Outstanding claim

Reserve deposited for future payment of insurance money for an insurance accident which happened and the insurance company is held responsible for payment by insurance contract.

P

Partial loss

Partial loss in earthquake insurance is such that when the purpose of insurance is a building, and it is damaged by an earthquake, tunami or eruption and the amount of damage to the main structures (foundation, pillars, walls, and roof) reaches 3% or higher to less than 20% of the insurable value.

As to movables for living, the amount of damage is 10% or higher to less than 30% of the insurable value of any of such properties.

Payment limit due to a single Earthquake

Law concerning Earthquake Insurance stipulates the total insurance money to be paid by the government and the insurance companies per earthquake, tunami or eruption disaster. The limit is determined according to the maximum estimated damage of earthquake insurance in force at this point, bearing in mind that insurance money can be paid against disasters caused by an earthquake equivalent to the Great Kanto Earthquake.

In the event that the total of insurance money payable exceeds the limit, the insurance money per insurance contract may be reduced according to the rate of limit to the total amount of insurance money payable to the total sum of insurance money payable.

Price fluctuation reserve

Reserve against loss from price fluctuation of securities owned by an insurance company.

R

Receiving Reinsurer

The insurance company (the reinsurer) which undertakes reinsurance from a ceding insurance company (the reinsured)

Reinsurance

The insurance company cedes part or whole of the responsibility to pay insurance money for its direct insurance contract to another insurance company. This is because the company needs to collect equivalent as many risks as possible and to average risks according to the Large-number Law, essential to the insurance management.

Reinsurance commission

Commissions to be paid at a fixed rate of reinsurance premiums by the reinsurer to the reinsured when the former takes reinsurance.

Reinsurance money

Insurance money to be paid to the reinsured by the reinsurer. The act of receiving reinsurance money by the reinsured from the reinsurer is called recovery of reinsurance money.

Reinsurance premium

Premiums to be paid when the direct Insurer cedes its direct contract to any other insurance company

Retrocession

Retroceded insurance, partially or wholly, from the reinsurer to another insurance company to spread risks.

Risk reserve

Reserve deposited by JER for the payment of insurance money due to possible earthquake, tunami or eruption caused damages.

T

Term insured

The term during which the insurance company is responsible for liability from insurance contract. When an insurance accident happens during the term, the insurance company takes responsibility.

Total maximum liability

In earthquake insurance, it is decided in advance that how much insurance money each of JER, non-life insurance companies and the government per time or per year. The limit amount for which each is responsible is called the total maximum liability. The total of maximum limits is equal to the total payment limit due to a single earthquake.

Total loss

Total loss in earthquake loss is such that when the purpose of insurance is a building and it is damaged by earthquake, tunami or eruption, the amount of damage to the main structures (foundation, pillars, walls and roof) reaches 50% of or higher than the insurable value or the floor area of part of the building which was burnt or flooded away reaches 70% of or higher than the total area of the building.

As to movables for living, total loss is such that the rate of damage reaches 80% of or higher than the insurable value.

Treaty reinsurance

A reinsurance contract in which there is concluded in advance a blanket agreement on reinsurance transaction by and between the reinsured and the reinsurer, and the target direct insurance contract is automatically and comprehensively reinsured.

U

Underwriting reserve

Reserve deposited by insurance company against possible insurance liabilities.

W

Warning System

This is a declaration to be announced according to Large Scale Earthquake Countermeasures Act (Law No. 73, 1978). When he is given information on a prevision of earthquake by the Director of the Metrological Agency and think it necessary to take a quick step for earthquake disaster prevention, the prime minister is to hold a cabinet meeting and issue an warning system, announcing that the parties concerned should follow an warning system against earthquake disasters: In the event that such a declaration is issued, Law concerning Earthquake Insurance prevents any insurance company from entering into a new earthquake insurance on buildings and movables for living located in an area which needs reinforced measures against earthquake disasters and any policyholder to increase in contract amount . For any earthquake insurance contract which becomes mature while the declaration is in force, the policyholder is able to renew the contract at the same or lower amount.

Japan Earthquake Reinsurance Co., Limited 2006
Published in Dec. 2006

Reinsurance Operation Group, Reinsurance Division
Japan Earthquake Reinsurance Company, Limited

Address:Kobuna-cho Fuji Plaza, 8-1, Nihonbashi-kobuna-cho, Chuo-ku,
Tokyo Japan 103-0024

URL: http://www.nihonjishin.co.jp/

E-mail: gyoumuunei@nihonjishin.co.jp

Phone: 03-3664-6107

This booklet was prepared in accordance with Article 111, Insurance Business Law of Japan.

Japan Earthquake Reinsurance

PRINTED WITH SOY INK™
R100
Percentage of Waste Paper pulp 100%