

REINSURANCE OF EARTHQUAKE INSURANCE

MECHANISM OF REINSURANCE

In the event that a major earthquake happens, it can result in large payouts of insurance claim by insurance companies. Because there is a certain limit, however, to the ability of these companies to make payments, the government shares insurance responsibility with them through reinsurance.

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

Treaty A

Reinsurance by JER for non-life insurance companies

JER has entered into a 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 in accordance with the Law concerning Earthquake Insurance. JER takes up the full liability for this earthquake insurance without fail.

Treaty B

Retrocession by JER on non-life insurance companies

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

Treaty C

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

JER has entered into an excess of loss reinsurance with the government on earthquake insurance for a 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.



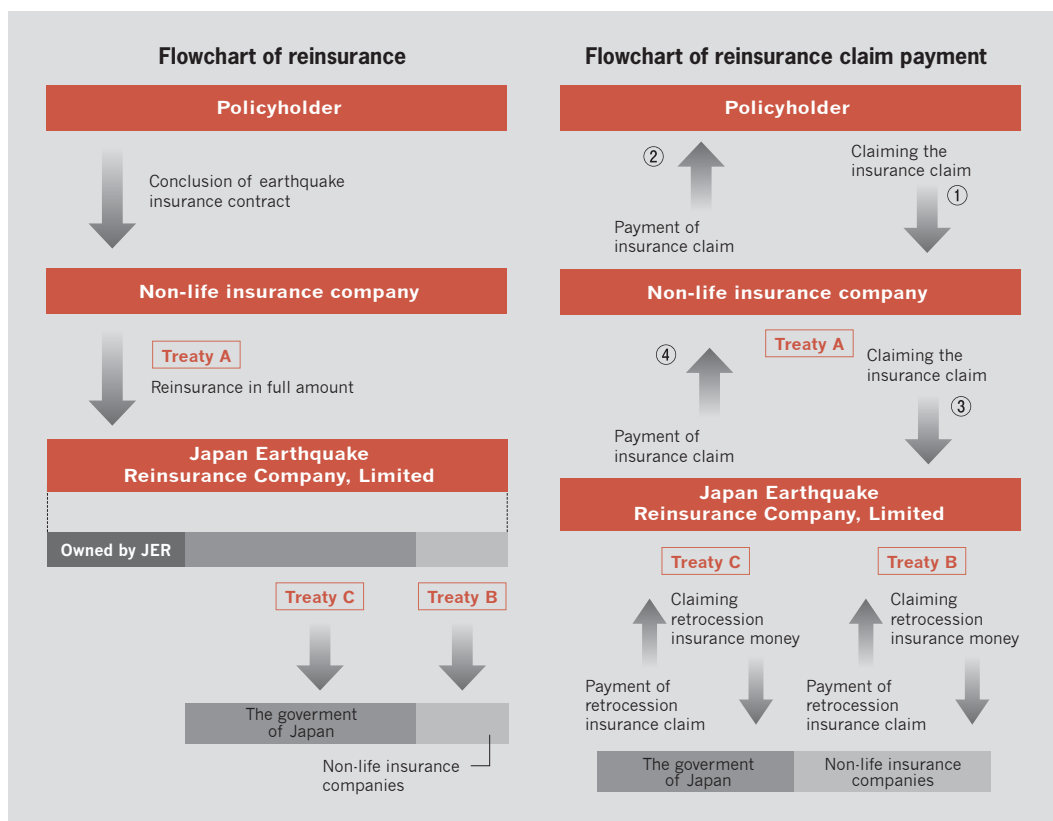
MECHANISM OF PAYMENT OF INSURANCE CLAIMS

The policyholder claims insurance money to the non-life insurance company when the policyholder suffers a certain loss or damage as a result of an earthquake, etc., and the company will pay insurance claim to the policyholder.

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

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

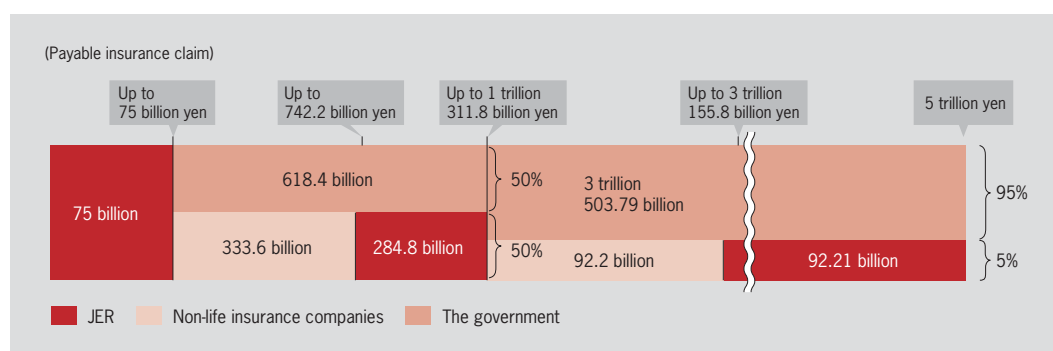
FLOWCHART OF REINSURANCE OF EARTHQUAKE INSURANCE



INSURANCE LIABILITIES HELD BY JER, NON-LIFE INSURANCE COMPANIES AND THE GOVERNMENT

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

REINSURANCE SCHEME



LIABILITY LIMIT

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



THE BALANCE OF RISK RESERVES AT JER AND NON-LIFE INSURANCE COMPANIES AND THE GOVERNMENT LIABILITY RESERVES AT THE END OF FISCAL 2006

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

JER	412.3 billion yen
Non-life insurance companies	451.8 billion yen
The government	1,074.1 billion yen
Total	1,938.3 billion yen

Note 1: The risk reserves by the non-life insurance companies include the amount equivalent to deferred tax assets due to tax effect accounting.

Note 2: Government liability reserves are established when the settlement for fiscal 2006 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 associated with a single earthquake are to be paid. JER, non-life insurance companies and the government will pay each in the following amount:

(Unit: billion yen)

Claims paid	Portion over 75 billion yen, and up to 1,311.8 billion yen			Total
	Portion up to 75 billion yen	Portion over 75 billion yen, and up to 1,311.8 billion yen	Portion over 1,311.8 billion yen, and up to 2,000 billion yen	
A person of burden				
JER	75.0	284.8	—	359.8
Non-life insurance companies	—	333.6	34.4	368.0
The government	—	618.4	653.8	1,272.2
Total	75.0	1,236.8	688.2	2,000.0