



ANNUAL REPORT 2007

Introduction to Earthquake Reinsurance in Japan

JAPAN EARTHQUAKE REINSURANCE CO., LTD.

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MESSAGE FROM THE PRESIDENT



Chairman:
Shozo Wakabayashi

President:
Akihiko Mori

We are delighted to introduce to the readers of this annual report a detailed disclosure of the current situation and activities of the Company.

Japan Earthquake Reinsurance Co., Ltd. was founded in 1966 as the only company in Japan permitted to exclusively handle reinsurance for earthquake insurance on dwelling risks. In the last 40 years since the introduction of earthquake insurance on dwelling risks, we have been underwriting the risk of dwelling earthquakes in Japan in alliance with the Japanese government and non-life insurance companies. As the core entity in this sector, we have not only been committed to bolstering and upgrading the system of reinsurance payment, but also to providing our best care to managing and operating the assets that support the system. The number of earthquake insurance contracts continued to rise in fiscal 2006, amounting to more than 10 million. The total asset balance as of the end of March 2007 was 908.9 billion yen. Earthquake insurance contracts will continue to increase in fiscal 2007, principally because of tax reform, which make earthquake insurance premiums deductible for tax purposes, and the introduction of the enhanced insurance premium discount system. We constantly review overall management with the aim at strengthening our business foundations, playing an even more important role, and fulfilling our responsibility.

We have long been dedicated to helping protect the environment. In March 2007, we took another step forward when we acquired the ISO 14001 international environmental management certificate, by introducing the environment management system.

We have prepared this annual report with an understanding that disclosure is an integral part of information provision and corporate governance. We hope that it will provide you with insight into the current situation and activities of the Company. We welcome any comments or opinions.

October 2007

Akihiko Mori
President
Japan Earthquake Reinsurance Co., Ltd.

EARTHQUAKE INSURANCE IN JAPAN

ESTABLISHING THE EARTHQUAKE INSURANCE SYSTEM

Japan is well known for its frequent earthquakes. Traditionally, the thinking has been that it is difficult provide insurance coverage for damage caused by earthquakes. One reason for this is that nobody can be sure when an earthquake will strike. Another reason is that there is a risk that a major earthquake could cause tremendous damage. Earthquake insurance was for many years the subject of a great deal of research and discussion, to little avail. Despite this, there was considerable public demand for a system of earthquake insurance on dwelling risks* to enable victims of an earthquake who have lost their homes or property rebuild their life. Responding to this demand, the non-life insurance business continued to study ways to build such a system.

The Niigata Earthquake of June 1964 prompted efforts to establish the system. The government and the non-life insurance sector conducted a detailed examination of the earthquake insurance system, ultimately leading to the Law concerning Earthquake Insurance. The system for earthquake insurance on dwelling risks was built based on this law and Japan Earthquake Reinsurance Co., Ltd. (JER) was established. We play an key role in taking on full responsibility with the reinsurance of earthquake insurance contracts entered into by non-life insurance companies.

MECHANISM OF THE EARTHQUAKE INSURANCE SYSTEM

Earthquake insurance is arranged as an optional rider to fire insurance which covers buildings for residential use and/or personal property. Earthquake insurance cannot be purchased on its own. If you conclude a fire insurance contract without earthquake insurance, you are required to seal the earthquake insurance check column of the fire insurance contract application form. If you have entered into a fire insurance contract without earthquake insurance, you will be able to buy earthquake insurance while your fire insurance contract is valid. In some areas, however, if an announcement warning of an earthquake has been made, you may not be able to buy earthquake insurance.

* Non-life insurance is divided into two groups: insurance in the household risks field taken out by individuals to cover various risks in the home, and insurance in the corporate risks field taken out by companies to cover various company's risks. The same distinction applies to earthquake insurance. Insurance taken out by individuals is called earthquake insurance on dwelling risks, and the other insurance is called as earthquake insurance for companies. The Law concerning Earthquake Insurance targets at earthquake insurance on dwelling risks.



INSURANCE COVERAGE

Loss of or damage to buildings for residential use and/or personal property through fire, destruction, burial or flooding caused directly or indirectly by any earthquake or volcanic eruption, or resulting tsunami (hereinafter referred to as an earthquake, etc.).

Fire insurance* does not cover

1. any losses caused by fire (including the spread thereof, and expanded loss) resulting from an earthquake, etc., and
2. any fire that has spread because of an earthquake, etc. Earthquake insurance is needed to compensate for these kinds of losses.

INSURABLE INTERESTS

Buildings for residential use and/or personal property

None of the following is insurable:

A building used as a plant or office, and not used for dwelling purposes, precious metals, gems or antiques valued at ¥300,000 or more per piece, currency, securities (checks, share certificates, gift certificates), certificates of deposit, revenue stamps, postal stamps, automobiles and certain other items.

TERM INSURED

Short-term, one year and long-term (two to five years)

AMOUNT INSURED

The policyholder is required to set the amount insured under earthquake insurance within a range of 30-50% of the amount of insurance provided by his/her fire insurance. However, the amount insured is limited to a maximum of ¥50 million for a building** and ¥10 million for personal property.

* Fire insurance

Ordinary fire insurance, long-term comprehensive insurance, deposit life comprehensive insurance, dwelling fire insurance, householders' comprehensive insurance, storekeepers' comprehensive insurance and certain other types of insurance.

** The amount insured of a condominium building such as apartment building is limited to ¥50 million, totaling exclusive areas and common areas.

PAYMENT OF INSURANCE CLAIMS

Insurance claims are paid according to the policyholder's earthquake insurance to cover total, half or partial loss of the policyholder's residential building and/or personal property.

Insurable objects	Degree of loss	Amount of insurance claim paid
Residential buildings, personal property	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 applies to any of the following cases:

Degree of loss	Residential building		Personal property
	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 floor level)	Degree of loss of or damage to the personal property
Total loss	50% or more of the current price of the residential building	70% or more of the total floor area of the residential building	80% or more of the current price of the personal property
Half loss	From 20% to less than 50% of the current price of the residential building	From 20% to less than 70% of the total floor area of the residential building	From 30% to less than 80% of the current price of the personal property
Partial loss	From 3% 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.	From 10% to less than 30% of the current price of the personal property

CASES WHEN NO INSURANCE CLAIM IS PAYABLE:

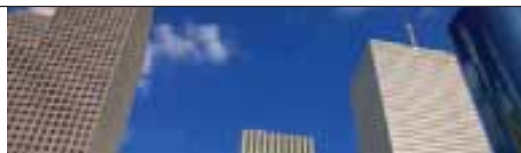
- Loss or damage due to willful acts or gross negligence or violation of law
- Loss or damage due to war or insurrection
- Loss or damage occurring ten days or more after the earthquake
- Loss or theft of the objects of the insurance

WHEN A NON-LIFE INSURANCE COMPANY BECOMES INSOLVENT:

When the policyholder is an individual, a small business or a condominium management union, the insurance company is fully indemnified for the insurance claim by the Non-Life Insurance Policy-holders Protection Corporation of Japan.

* Current price

The current price is such that the amount of depreciation according to the service year is deducted from the price of a new building.



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, etc.. In the event the total amount of insurance claims payable exceeds the limit, law allows insurance claims per contract to be reduced.

PREMIUM RATE

The premium rate for earthquake insurance is calculated by the Non-Life Insurance Rating Organization of Japan** on the basis of the Law concerning Non-Life Insurance Rating Organizations. The basic rate of insurance premiums consists of a risk premium rate applicable to or appropriate for the future payment of insurance claims and a loading premium rate applicable to or appropriate for non-life insurance company expenses and agency commissions.

$$\text{Premium rate} = \text{Risk premium rate} + \text{Loading rate}$$

The premium rate actually applied is calculated by multiplying the basic rate of the insurance premium that is set according to the residential building, the structure of the building to accommodate personal property, and the building location, by a discount rate set according to the earthquake-resistance class (for which certain confirmation documents are required). October 1, 2007, the basic rate was revised and the scope of residential housing with high earthquake-resistance capacity eligible for a discount was expanded.

* *Limit of total amount of insurance claims to be paid*

The Law concerning Earthquake Insurance stipulates that the limit to the total insurance claims payable by the government and private insurance company per earthquake, etc.. For details, see p.12 Insurance liabilities held by JER, non-life insurance companies and the government.

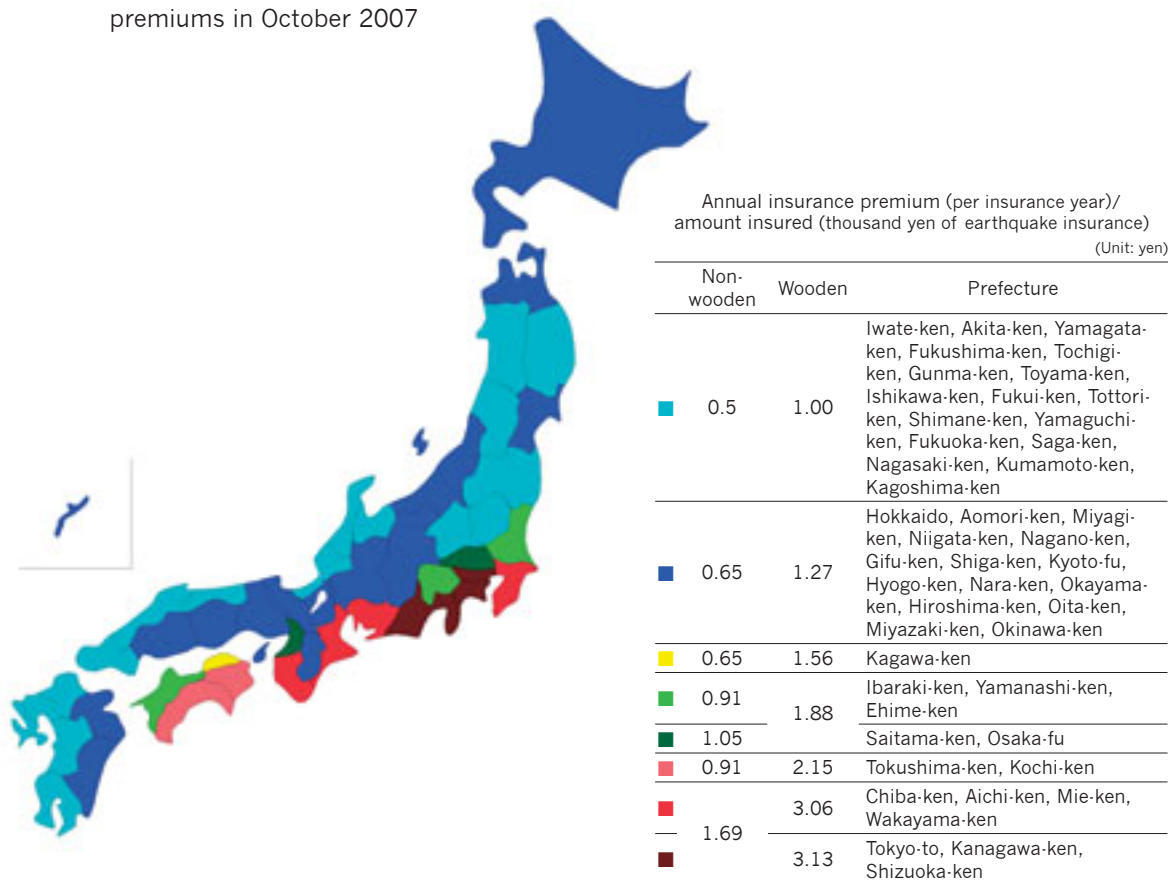
** *Non-Life Insurance Rating Organization of Japan*

An organization established in accordance with the Law concerning Non-Life Insurance Rating Organizations, which aims to provide a fair basis premium rate applicable to non-life insurance.

BASIC RATE (APPLICABLE TO BUILDINGS AND PERSONAL PROPERTY)

The basic rate is set according to the residential building, the structure of the building to accommodate the personal property and the building location.

After the revision of insurance premiums in October 2007



The Headquarters for Earthquake Research Promotion*, a government organization, published the Probabilistic Seismic Hazard Maps. The risk premium rate is calculated based on the latest revised damage projection method to cover all earthquakes (number of epicenters: about 730,000 epicenter model) used in the preparation of the maps that are assumed to have the potential to cause damage in the future.

* The Headquarters for Earthquake Research Promotion

Following on the lessons learned from the Great Hanshin-Awaji Earthquake Disaster, the Special Measure Law on Earthquake Disaster Prevention was enacted to develop a system to facilitate research and study on earthquakes, and based on this Law, the Headquarters for Earthquake Research Promotion was founded in July 1995. In March 2005, the Headquarters for Earthquake Research Promotion published two kinds of maps as the National Seismic Hazard Maps for Japan: the Probabilistic Seismic Hazard Map and the Scenario Earthquake Shaking Map. The Probabilistic Seismic Hazard Map was revised in April 2007.



DISCOUNT RATE

Either discount rate will apply to the foregoing basic premiums rate when the building and personal property come under any of the following:

- Discounts cannot be claimed more than once.
- The discount rules in (c) and (d) were added on October 1, 2007.

(a) Building age discount rate

When the building was constructed during or after June 1981 and accommodated personal property

Discount rate	10%
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(b) Earthquake-resistance class* discount rate

When the building corresponds to the earthquake-resistance class as provided for by law and accommodated personal property

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

* Earthquake-resistance class

The earthquake-resistance class of a residential building is an indicator of earthquake resistance as stipulated in the Japanese Housing Performance Designation Standards based on the Housing Quality Guarantee Law. It is also used to evaluate a building for earthquake resistance as provided for in the assessment guidelines for earthquake-resistance diagnosis based on the earthquake-resistance class (as to the body of the building) established by the Ministry of Land, Infrastructure and Transport. A description of the classes is as follows.

Earthquake-Resistance Class 3

A class suggesting that the building will not topple or collapse against a force that is 1.5 times stronger than the force of an earthquake (as provided for in Section 3, Article 88, Enforcement Order of the Construction Standard Act) that occurs very rarely (once every some hundred years)

Earthquake-Resistance Class 2

Class suggesting that the building will not topple or collapse against a force 1.25 times stronger than the force of an earthquake that occurs very rarely

Earthquake-Resistance Class 1

Class suggesting that the building will not topple or collapse against that force of earthquake that occurs very rarely

(c) Seismic isolated building* discount

When the building is a seismic isolated building constructed in accordance with related laws and accommodated personal property

Discount rate	30%
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(d) Earthquake-resistance diagnosis discount

When the building was assessed as having an earthquake-resistance capacity** equivalent to that stipulated by related laws as a result of an earthquake-resistance diagnosis or an earthquake-resistance refurbishment, and accommodated personal property

Discount rate	10%
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PREMIUM RATE OF A LONG-TERM CONTRACT

Premium rate of a long-term contract (a two-to-five year contract with special conditions for premiums) is calculated as follows:

(Basic rate – discount rate) x applicable coefficient = premium rate of a long-term contract.

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

* *Seismic isolated building*

A seismic isolated building is a building that is assessed to be a seismic isolated building in accordance with the related indicators in the Japanese Housing Performance Designation Standards under the Housing Quality Guarantee Law.

** *Earthquake-resistance capacity*

Earthquake-resistance capacity is an aseismic capacity that conforms to the current earthquake-resistance standards set out in the Building Standards Law.



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; personal property 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
 Personal property: 6 million yen x 50% = 3 million yen
2. Confirming the premium rate applicable: Hyogo-ken, wooden → 1.27
3. Confirming the discount rate applicable: Building constructed in and after June 1981 → 10%

$$\begin{array}{l} \text{Earthquake insurance premium} \\ \text{on residential building} \end{array} = \begin{array}{l} \text{Earthquake} \\ \text{amount insured} \end{array} \times \begin{array}{l} \text{Earthquake insurance} \\ \text{premium rate} \end{array} \times \begin{array}{l} \text{Discount rate} \\ (100\% - 10\%) \end{array} = 11,400 \text{ (yen)}$$

1.14

$$\begin{array}{l} \text{Earthquake insurance premium} \\ \text{on personal property} \end{array} = \begin{array}{l} \text{Earthquake} \\ \text{amount insured} \end{array} \times \begin{array}{l} \text{Earthquake insurance} \\ \text{premium rate} \end{array} \times \begin{array}{l} \text{Discount rate} \\ (100\% - 10\%) \end{array} = 3,420 \text{ (yen)}$$

1.14

* Proportion Insured

The insured earthquake amount as a percentage of the insured fire amount. The insured earthquake amount should be 30-50% of the insured fire amount.

INCOME TAX CREDIT SYSTEM FOR EARTHQUAKE INSURANCE

In the tax system revision in fiscal 2006, the old income tax credit for non-life insurance was revised, and an income tax credit for earthquake insurance was established to support self-help efforts of the public in preparation for earthquake damages. As the revision enables deductions of up to 50,000 yen and 25,000 yen from the gross income, etc. for the purposes of income tax and the local inhabitant tax, respectively, the purchase of an earthquake insurance policy became easier.

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.



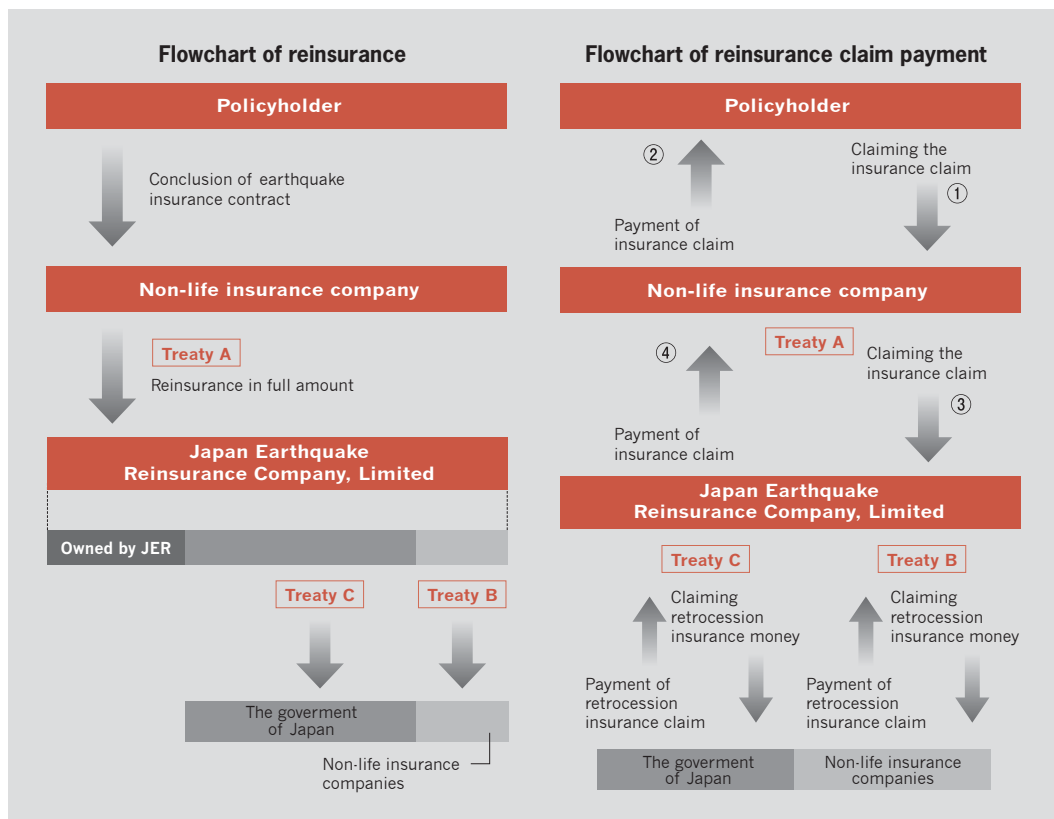
MECHANISM OF PAYMENT OF INSURANCE CLAIMS

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.

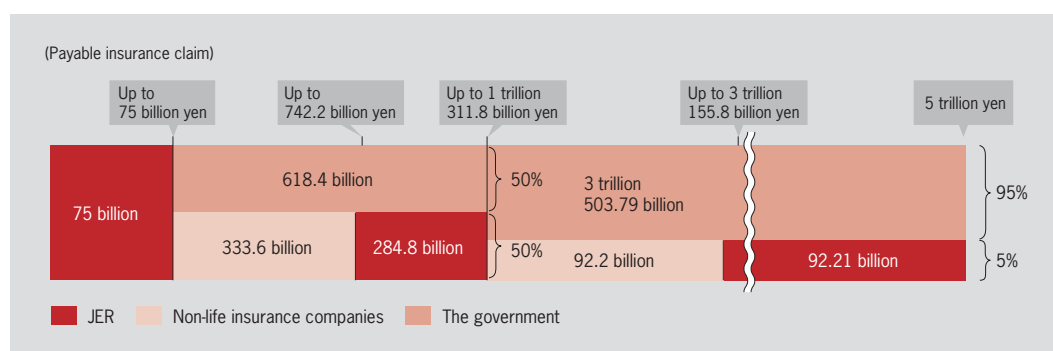
FLOWCHART OF REINSURANCE OF EARTHQUAKE INSURANCE



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

STATISTICS

THE PERCENTAGE OF HOUSEHOLDS PURCHASING EARTHQUAKE INSURANCE IN AREAS AT RISK OF MAJOR EARTHQUAKES

Earthquake	No. of households (A) (1,000 households)	No. of contracts (B) (1,000 contracts)	Amount insured (million yen)	Percentage of households with insurance (B/A) (%)	Probability that an earthquake could occur within the next 30 years
Great Kanto earthquake	22,585	5,746	45,390,190	25.44	Nearly 0% - 1%
Earthquake with an epicenter directly below metropolitan Tokyo	15,900	4,180	32,719,007	26.29	About 70%
Tokai earthquake	21,469	5,679	44,853,778	26.45	87% (reference value)
Tonankai earthquake	20,441	4,843	38,229,334	23.69	About 60% - 70%
Nankai earthquake	27,972	6,278	49,824,781	22.44	About 50%

Note: The probability that an earthquake could occur within the next 30 years is based on the 2007 version of the National Seismic Hazard Maps for Japan of the Headquarters for Earthquake Research Promotion of the Japanese government. The probability of an earthquake with an epicenter directly below metropolitan Tokyo refers to an earthquake with magnitude of about 7 that could occur in southern Kanto.

REINSURANCE CLAIMS PAID IN FISCAL 2006

Reinsurance claims paid in fiscal 2006 reached 2,240 million yen, including earthquake reinsurance claims paid to cover the Fukuoka-ken-Seiho-oki earthquake that occurred on April 20, 2005. In terms of number, 4,060 claims were paid (on the basis of insurance policies), as the number of earthquakes that caused damage was relatively small. See below for major claims paid per earthquake.

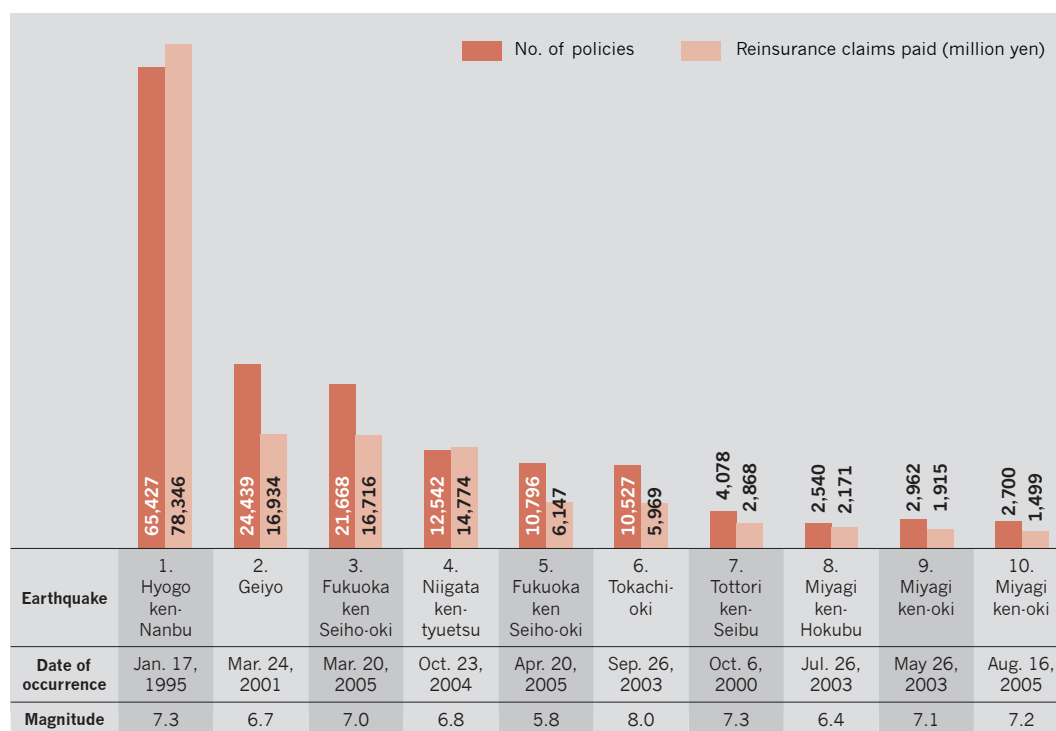
Earthquake	Date of occurrence	Magnitude	No. of policies	Reinsurance claims paid (million yen)
1. Fukuoka ken Seiho-oki earthquake	April 20, 2005	5.8	2,446	933
2. Fukuoka ken Seiho-oki earthquake	March 20, 2005	7.0	587	430
3. Ohita ken chubu earthquake	June 12, 2006	6.2	526	358
Other earthquakes	—	—	501	517
Total	—	—	4,060	2,240



TOP TEN EARTHQUAKES AS TO REINSURANCE CLAIMS PAID

See the table below for the top ten earthquakes with respect to reinsurance claims paid since the earthquake insurance was established.

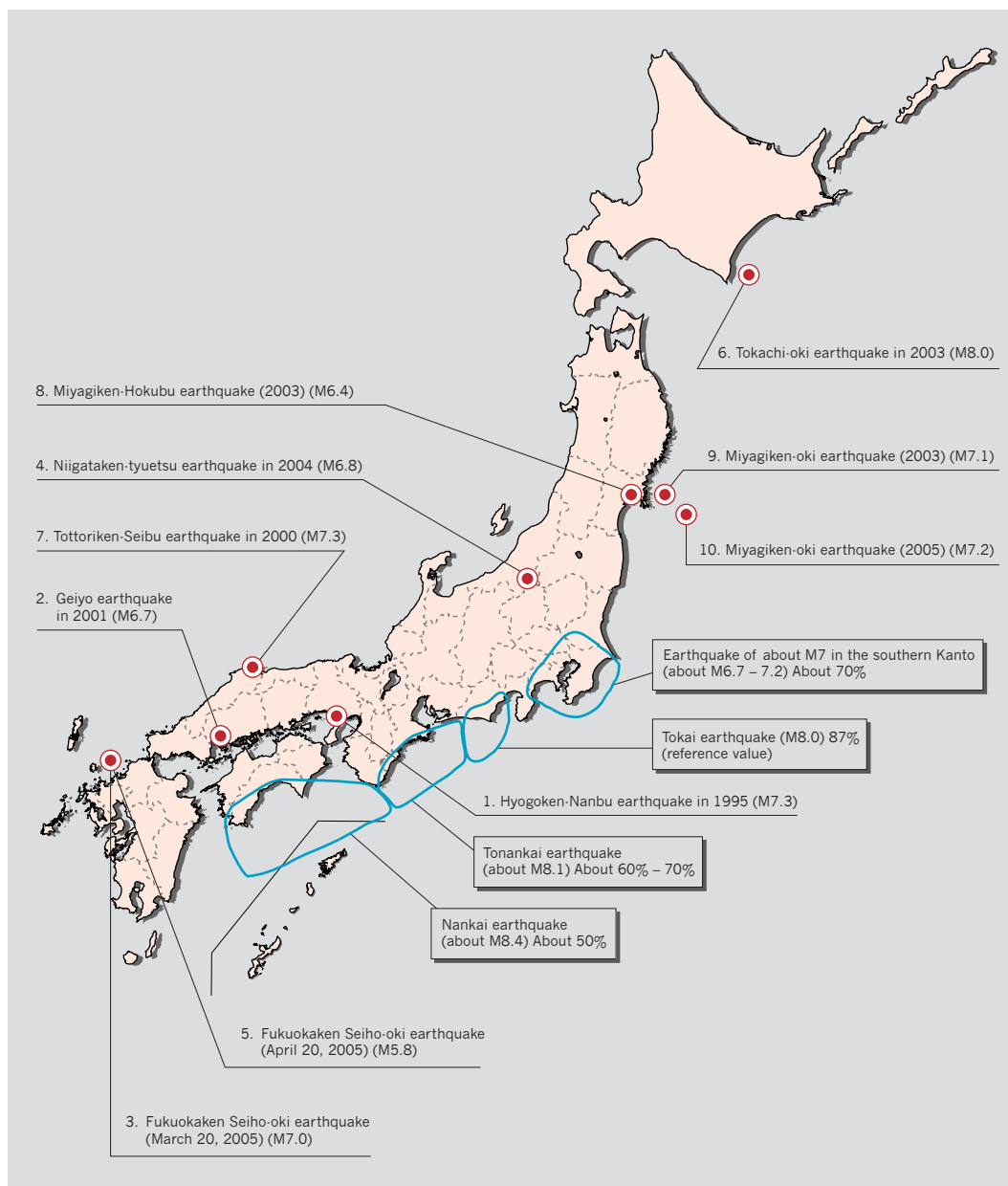
(As of March 31, 2007)



Note: Insurance claims worth 78,346 million yen were paid to cover the Hyogoken-Nanbu earthquake. Of these claims, the government paid 6,173 million yen, JER 40,000 million yen and the non-life insurance companies 32,173 million yen according to the reinsurance scheme in force at the time.

Below are the epicenters and magnitudes of the top 10 earthquakes for which we paid reinsurance claims in the past. The number attached to the name of the earthquake is in order of payment amount.

As a reference, the epicenter area and the probability that an earthquake with a magnitude of about 7 in southern Kanto, the Tokai earthquake, the Tonankai earthquake and the Nankai earthquake could occur within the next 30 years announced by the Headquarters for Earthquake Research Promotion of the government are also included.

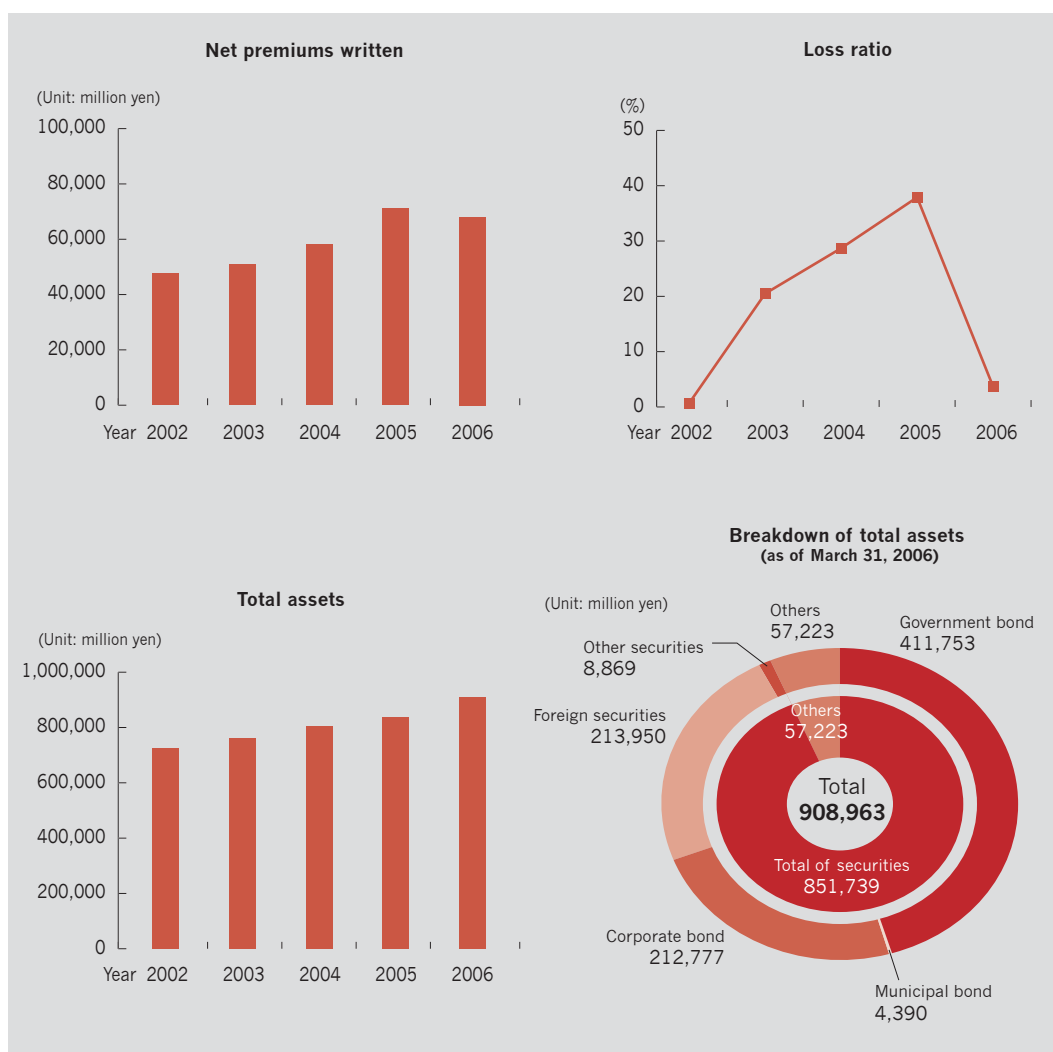




JAPAN EARTHQUAKE REINSURANCE CO., LTD.

FINANCIAL HIGHLIGHTS

Although net premiums written declined in fiscal 2006, they have been trending higher in recent years, accompanying the increase in the number of earthquake insurance policyholders. We invest assets under management in bonds with high credit ratings and liquidity to prepare for the payment of reinsurance claims.





(Unit: Million yen)

Fiscal Year	2002	2003	2004	2005	2006
Net premiums written	47,566	50,896	58,198	71,132	67,981
Loss ratio	0.7%	20.5%	28.7%	37.9%	3.7%
Underwriting income	51,897	54,678	61,995	91,001	72,451
Ordinary profit	303	184	98	23	143
Net income	10	17	10	36	△16
Solvency-margin ratio	176.3%	184.3%	182.2%	160.2%	175.3%
Total shareholders' equity	1,577	1,579	1,587	1,605	1,600
Total assets	726,458	761,594	804,333	838,555	908,963
Net unrealized gains on other securities	25	14	11	△5	5
Net unrealized gains on other securities of earthquake insurance	11,825	7,000	5,458	△9,054	△4,540

PROFILE

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

Earthquake insurance on dwelling risks depends on this reinsurance system (which is a safety net, as it were), in which the government, non-life insurance companies and JER participate to ensure that insurance claims can be paid to policyholders without fail.

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

JER is thus at the center of a reinsurance system, and undertakes reinsurance procedures with the government and non-life insurance companies, while managing and operating the insurance premiums paid by policyholders as the sole earthquake reinsurance company in Japan.

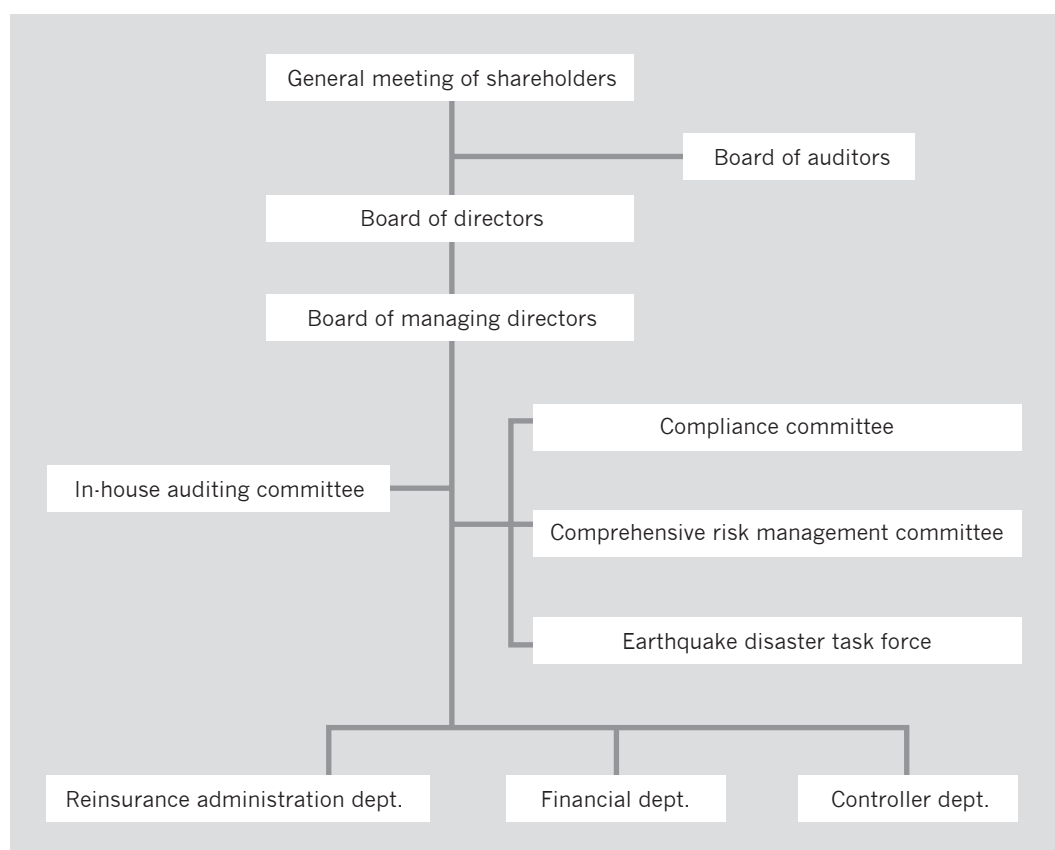
TOP 10 SHAREHOLDERS

(As of March 31, 2007)

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

ORGANIZATION

(As of April 1, 2007)





DIRECTORS (FULL-TIME)

(As of June 29, 2007)

Post	Name
Chairman (representative director)	Shozo Wakabayashi
President (representative director)	Akihiko Mori
Managing director (representative director)	Tatsuro Yoshida
Managing director (representative director)	Masayuki Hashimoto
Corporate auditor	Terumasa Hasegawa

RESPONDING TO MAJOR EARTHQUAKES

Our most important role is to pay reinsurance claims promptly and properly in the event of a major earthquake. We are provided therefore with a standing task force against earthquake disasters, consisting of full-time directors and managerial staff, and conduct annual drills to bolster our system for major earthquakes. We also carefully manage and operate our assets, with a focus on liquidity and safety in mind. See below for details.

TASK FORCE AGAINST EARTHQUAKE DISASTERS AND ITS ACTIVITIES

The committee is a standing in-house organization drawn from across JER. It prepares an annual plan, is the first responder according to the plan, sets up a task force headquarters and pays reinsurance claims, keeping an emergency manual for use in the event of an assumed major earthquake. In fiscal 2006, all directors and employees carried out a drill that involved walking to and from work.

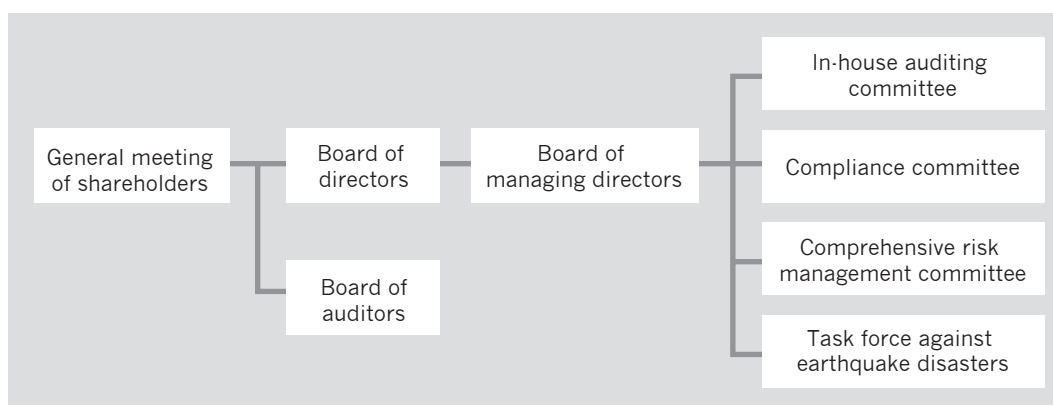
We have been making improvements to our payment system based on the simulation of damages suffered by Tokyo in the event of a destructive inland earthquake, prepared by the Central Disaster Prevention Council of Japan and an external research institution. In fiscal 2007, we will review the payment system centered on the funding plan, by referring to the results of a questionnaire “Developments in the Bond Market after the Occurrence of Major Earthquake Disaster” sent in March 2007 to bond market participants at banks and securities firms.

OPERATION BASED ON HIGHLY LIQUID ASSETS

Should a destructive inland earthquake strike Tokyo, we would have to pay a tremendous amount of reinsurance claims in a short period of time. For this reason, we always hold mainly highly liquid, high-rating securities, and basically we are prepared to cash almost all of our assets within four days. To reduce cost-related risks at the time of realization, we hold mainly medium-term securities.

CORPORATE GOVERNANCE

IN-HOUSE GOVERNANCE SYSTEM



COMMITTEES SYSTEM BASED OPERATION

Our corporate governance depends on the committees system under the control of the Board of Managing Directors. Consisting of three committees—an in-house auditing committee, a compliance committee and a comprehensive risk management committee—the system is designed to facilitate audits, compliance, risk management and the maintenance of sound business operations. Preparing for a natural calamity, the Company is provided with a task force against natural disasters to facilitate the payment of insurance claims and maintain the funding plan for payment, enabling it to take prompt action in response to large-scale earthquake disasters.

The annual operation policy and operating conditions of each committee is periodically reported to the Board of Managing Directors and Board of Directors.

AUDITING SYSTEM, OUTSIDE AND IN-HOUSE INSPECTION

Outside auditing and inspection

The Financial Services Agency examines our management and general business operation in accordance with Articles 129 and 313, Insurance Business Law. The Ministry of Finance conducts the same examination under Article 9, Law concerning Earthquake Insurance.

We also receive an accounting audit by an auditing corporation in accordance with the Commercial Code.

IN-HOUSE AUDITING

In addition to auditing conducted by auditors based on the Companies Law, we are equipped with an in-house auditing committee. In-house auditing puts emphasis on how major issues are handled by each division as well as on the compliance and risk control systems. Internal control conditions including office work are subject to auditing this year, with an emphasis on the inspection of the development of a new operating system.



RISK MANAGEMENT SYSTEM

It is becoming increasingly important to understand and control the complicated and diversifying risks that surround us, such as ongoing financial liberalization and the increasing sophistication of financial technology, to ensure the safety and soundness of management.

As specific measures to respond to this situation, we have been endeavoring to maintain and develop our risk control system by establishing a comprehensive risk control committee to supervise risk management and reinforce the functions of comprehensive risk control. This helps us understand risks exactly and control them properly. Developments on this matter are regularly reported to the Board of Directors and the Board of Managing Directors.

DEALING WITH ASSETS MANAGEMENT RISKS

The investment assets have amounted to approximately 900 billion yen. Because it is primarily necessary to pay reinsurance money promptly and properly in the event of a major earthquake disaster, the assets are generally being operated using public bonds. 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 with high credibility with reference to the credit rating made by rating agencies. We always check securities held to determine credibility, and conduct individual controls to avoid a concentration on a specific group of companies or type of business.

Liquidity risks

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

DEALING WITH PAPERWORK ISSUES

We constantly examine the rules and regulations of authority and paperwork procedures and manuals for exact and perfect paperwork. We also regularly check the rules and regulations through in-house auditing for conformity with related laws and regulations.

DEALING WITH SYSTEM RISKS

We constantly review the risk control plan with an emphasis on system security in the event of a calamity. This will improve the control system.

Financial Section

Financial Review

Indicators Showing the Main Results over the Last Five Fiscal Years

Indicators Showing Results for the Last Three Fiscal Years

Accounting Concepts

1. Financial statements
2. Risk management credits
3. Present conditions of loans involving trust with contact for replacement of losses
4. Credit obligations based on debtor classification
5. Conditions of solvency-margin ratio
6. Information on market prices
(acquisition cost or contract cost, market price and appraisal profit and loss) and others

FINANCIAL REVIEW

The number of earthquake insurance contracts increased slightly, while premiums written as a whole declined somewhat as the upward trend of long-term contracts settled down. In the meantime, the number and amount of payments of earthquake insurance experienced a significant decline over the previous year, with no major earthquake occurring.

Business expenses remained nearly flat from the level of the previous year, the result of our efforts to achieve efficient business operations and reduce costs in spite of expanding operations.

(1) Earthquake insurance results in outline

- a. Premiums written and insurance claims paid
Earthquake insurance premiums had been increasing until the previous year, but registered a slight decrease in the current fiscal year, resulting in net premiums written amounting to 67.9 billion yen.

Earthquake insurance claims paid came to 2.2 billion yen, reflecting the fact that there were no major earthquakes, although small earthquakes were frequent.

- b. Underwriting reserves

Risk reserves added amounted to 36.4 billion yen, the total of the net premiums written was 32.2 billion yen, given by deducting the assumed insurance and held of commissions from the net premiums written and a profit of 4.1 billion yen from investment.

The risk reserves at the end of the current term came to 412.3 billion yen after the ongoing insurance claims were paid, the outstanding claims calculated in the previous year were returned and risk reserves were drawn in the past year by 2.7 billion yen. The underwriting reserves at the end of the current term amounted to 490.9 billion yen after adding unearned premium reserves and refunded reserves to the risk reserves.

- c. Entrusted reserves

Designated as an entrusted reserve from the earthquake insurance account, the entrusted reserves for the year reached 401.3 billion

yen, by adding net premiums written and profit from investment of 24.5 billion yen and drawing advertisement / publicity expenses of 500 million yen.

(2) Investments in outline

Although the BOJ revised its zero interest rate policy, which had been in place since March 2001, and raised interest rates twice, medium- and long-term interest rates ended up being lower than the level of the previous year. The dollar fell sharply against the yen at one point but returned to the same level as at the end of the previous year, while the euro strengthened about 10% against the yen over the previous year on the foreign exchange market.

In this environment, we invested assets primarily in government bonds and corporate bonds with high credit ratings, placing the greatest emphasis on market liquidity risk and credit risk, as well as market risks such as interest rate risk, followed by profitability. As a result, profits from investment before tax rose 1.3 billion yen over the previous year, to reach 4.4 billion yen in the business account, and increased 0.9 billion yen, to come to 4 billion yen in the entrusted reserve account. Consequently, investment assets at the end of the current fiscal year reached 896.7 billion yen.

(3) Current profit and loss

The net loss amounted to 16 million yen after calculating interest, dividend income and corporate taxes.

INDICATORS SHOWING THE MAIN RESULTS OVER THE LAST FIVE FISCAL YEARS

(Unit: Million yen)

Division	Fiscal Year	2002	2003	2004	2005	2006
Net premiums written (percentage change over the previous term)		47,566 (△6.5%)	50,896 (7.0%)	58,198 (14.3%)	71,132 (22.2%)	67,981 (△4.4%)
Ordinary incomes (percentage change over the previous term)		58,460 (△20.4%)	66,352 (13.5%)	71,856 (8.3%)	107,868 (50.1%)	90,373 (16.2%)
Ordinary expenses (percentage change over the previous term)		58,156 (△20.0%)	66,167 (13.8%)	71,758 (8.4%)	107,845 (50.3%)	90,229 (16.3%)
Ordinary profit (percentage change over the previous term)		303 (△57.1%)	184 (△39.3%)	98 (△46.7%)	23 (△76.4%)	143 (521.1%)
Net income (percentage change over the previous term)		10 (△55.6%)	17 (74.2%)	10 (△40.5%)	36 (243.6%)	△16 (△146.4%)
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		1,577	1,579	1,587	1,605	1,600
Total assets		726,458	761,594	804,333	838,555	908,963
Underwriting reserves (percentage change over the previous term)		391,482 (8.5%)	412,968 (5.5%)	415,802 (0.7%)	450,892 (8.4%)	490,901 (8.9%)
(of the balance, risk reserve balance) (percentage change over the previous term)		341,675 (9.3%)	359,772 (5.3%)	355,813 (△1.1%)	378,731 (6.4%)	412,364 (8.9%)
Loans (percentage change over the previous term)		- (-)	- (-)	- (-)	- (-)	- (-)
Securities (percentage change over the previous term)		652,210 (5.5%)	682,285 (4.6%)	734,046 (7.6%)	771,383 (5.1%)	851,739 (10.4%)
Solvency-margin ratio		176.3%	184.3%	182.2%	160.2%	175.3%
Dividend propensity		-%	-%	-%	-%	-%
No. of employees		20	17	18	21	21

Note:

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 a criterion to enable the administrative authorities to trigger an order for improvement.

We conduct no trust business.

INDICATORS SHOWING RESULTS FOR THE LAST THREE FISCAL YEARS

① Indicators showing the main business results

1. Net premiums written

Item: earthquake

(Unit: Million yen)

Division	Fiscal Year	2004	2005	2006
Premiums written (A)		120,972	143,493	142,841
Return premiums (B)		1,082	1,440	1,760
Assumed net premiums written (A-B)		117,942	139,621	139,172
Reinsurance premiums ceded (C)		59,744	68,488	71,190
Net premiums written (A-B-C)		58,198	71,132	67,981

Note:

- 1: Return premiums: Return premiums of receiving reinsurance.
- 2: Assumed net premiums: Produced by deducting return premiums from receiving premiums.
- 3: Net premiums written: Produced by deducting paid reinsurance premium ceded from assumed net premiums written.

2. Underwriting profit

(Unit: Million yen)

Division	Fiscal Year	2004	2005	2006
Underwriting incomes		61,995	91,001	72,451
Underwriting expenses		61,515	90,580	71,804
Operating and general administrative expenses		401	421	521
Other incomes and expenses		△78	-	△126
Underwriting profit		-	-	-

Note:

- 1: The above operating, general and administrative expenses are those relating to the underwriting of insurances mentioned in the operating, general and 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: Million yen)

Division	Fiscal Year	2004	2005	2006
Assumed net claim paid (A)		15,987	24,662	2,240
Reinsurance claims recovered (B)		-	-	-
Net claims paid (A-B)		15,987	24,662	2,240

Note:

- 1: Assumed net claims 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 net claims paid.

② Indicators relating to insurance contracts

1. Loss ratio, net expense ratio and their combined ratio

(Unit: Million yen)

Division	Fiscal Year	2004	2005	2006
Loss ratio		28.7%	37.9%	3.7%
Underwriting expenses		24,804	29,982	29,348
Insurance related operating, general and administrative expenses		(401)	(421)	(521)
Agency commissions and brokerage fees		(24,403)	(28,560)	(28,827)
Net expense ratio		42.6%	40.7%	43.2%
Combined ratio		71.3%	78.6%	46.9%

Note:

- 1: Loss ratio: (Net claims paid + loss adjustment expenses) ÷ net premiums written
- 2: Net expense ratio: (Agency commissions and brokerage fees + Insurance related operating and general administrative expenses) ÷ net premiums written
- 3: Combined ratio: Loss ratio + net expense ratio

2. Rate of premiums written by domestic and overseas contracts

Division	Fiscal Year	2004	2005	2006
Domestic contract		100%	100%	100%

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

No. of reinsurers that ceded insurance contracts	Rate of top five reinsurers' ceded insurance premiums
18	77.7

Note:

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

There are no notes about unearned claims paid.

There are no notes about the rate of damage occurrence, the expenses ratio and rate of sum total before ceded insurance deduction.

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

We pay no contractor dividend.

③ Indicators relating to accounting

1. Amounts of outstanding claims and underwriting reserves

(Unit: Million yen)

Division	Year	As of the end of fiscal 2004	As of the end of fiscal 2005	As of the end of fiscal 2006
Outstanding claims		17,878	1,104	1,545
Underwriting reserves		415,802	450,892	490,901
Total		433,681	451,997	492,446

2. Detailed listing of liability reserves

(Unit: Million yen)

Division	Balance as of the end of fiscal 2005	Amount of increase in fiscal 2006	Amount of decrease in fiscal 2005		Balance as of the end of fiscal 2005
			Use per object	Others	
Reserve for ordinary bad debts	-	-	-	-	-
Reserve for individual bad debts	-	-	-	-	-
Reserve for specific foreign securities	-	-	-	-	-
Accrued severance benefits	83	17	3	-	97
Reserve for directors' retirement allowances	7	4	-	-	11
Reserve for bonus payment	14	16	14	-	16
Reserve for price fluctuation	7	0	-	-	8
Total	113	37	18	-	132

3. Detailed listing of shareholders' equity

(Unit: Million yen)

Division	Balance as of the end of fiscal 2005	Amount of increase in fiscal 2006	Amount of decrease in fiscal 2006	Balance as of the end of fiscal 2006	
Common stock	1,000	-	-	1,000	
Issued stock	Ordinary stock (2 mil. stock)	1,000	-	(2 mil. stock) 1,000	
	Total (2 mil. stock)	1,000	-	(2 mil. stock) 1,000	
Legal reserve and appropriated retained earnings	Legal reserve of retained earnings	1	-	-	1
	Special reserves	17	-	-	17
	Special price fluctuation reserves	39	-	-	39
Total	57	-	-	57	

Note:

The number of owned shares was 11,400 as of the end of fiscal 2006.

4. Business expenses (inclusive of loss adjustment)

(Unit: Million yen)

Division	Fiscal Year	2004	2005	2006
Personnel expenses		420	453	343
Non personnel expenses		1,014	2,512	721
Taxes		159	195	186
Agency commissions and brokerage fees		24,403	28,560	28,827
Total		25,998	31,722	30,079

Note:

Business expenses are the total of loss adjustment expense, operating, general and administrative expenses, agency commissions and brokerage fees as shown in the income statement.

5. Profit on sale of securities by category

(Unit: Million yen)

Division	Fiscal Year	2004	2005	2006
Government bonds		35	92	426
Foreign securities		6	-	-
Total		41	92	426

6. Loss on sale of securities by category

(Unit: Million yen)

Division	Fiscal Year	2004	2005	2006
Government bonds		10	288	246
Foreign securities		221	401	-
Total		231	689	246

7. Securities appraisal loss by category

(Unit: Million yen)

Division	Fiscal Year	2004	2005	2006
Government bonds		-	-	-
Foreign securities		-	-	-
Total		-	-	-

8. Depreciation expenses by category

(Unit: Million yen)

Type of asset	Acquisition cost	Amount of depreciation in fiscal 2006	Aggregated depreciations	Balance as the end of fiscal 2006	Rate of aggregated depreciations %
Tangible fixed assets					
Buildings	92	2	53	39	57.6
(for underwriting)	(92)	(2)	(53)	(39)	(57.6)
(for investment)	(-)	(-)	(-)	(-)	(-)
Others	22	0	19	3	86.5
Total	115	3	73	42	63.3
Intangible fixed assets					
Software	9	2	4	4	51.3
Others	0	0	0	0	63.1
Total	9	2	5	4	52.0
Grand total	125	5	78	47	62.4

9. Loss from disposal of fixed assets

(Unit: Million yen)

Division	Fiscal Year	2004	2005	2006
Property		2	-	-
(Land)		(-)	(-)	(-)
(Building)		(2)	(-)	(-)
Equipment		-	-	-
Tangible fixed assets		-	-	-
(Land)		(-)	(-)	(-)
(Buildings)		(-)	(-)	(-)
(Others)		(-)	(-)	(-)
Intangible fixed assets		-	-	-
(Software)		(-)	(-)	(-)
(Others)		(-)	(-)	(-)
Total		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 the increase in the loss ratio is omitted because insurance claims are offset by the disposition of underwriting reserves.

There are no notes about the loan write-off and profit from property and equipment.

④ Special deposit premium account

Nothing is to be mentioned.

⑤ Earthquake insurance underwriting reserves by category

(Unit: Million yen)

Division	Year	As of the end of fiscal 2004	As of the end of fiscal 2005	As of the end of fiscal 2006
Risk reserve		355,813	378,731	412,364
Repayment reserve		3,303	2,639	2,291
Unearned premium reserve		56,685	69,521	76,245
Total		415,802	450,892	490,901

⑥ The conditions at the end of the current fiscal year (runoff result) of outstanding claims (estimated amount) at the beginning of the term do not apply to earthquake insurance.

⑦ The amount of estimated final damages associated with the elapse of a period from the occurrence of accidents does not apply to earthquake insurance.

⑧ Investments

1. Investments policy

Because we have to pay a substantial amount of claims promptly in the event of a natural disaster such as a major earthquake, we put in principle the highest priority on safety and liquidity in operating our assets, followed by profitability to increase risk reserves. The risk management division is engaged in monitoring and controlling risks of all kinds, independently of the transactions execution division.

2. Investments in outline

Division	Year	As of the end of		
		fiscal 2004	fiscal 2005	fiscal 2006
Deposits		28,470	38,026	29,986
(Ordinary deposit)		(1,140)	(10,696)	(4,586)
(Time deposit)		(27,330)	(27,330)	(25,400)

Division	Fiscal Year	2004		2005		2006	
		Amount	Percentage composition (%)	Amount	Percentage composition (%)	Amount	Percentage composition (%)
Deposits		28,470	3.5	38,026	4.5	29,986	3.3
Call loans		15,000	1.9	-	-	-	-
Monetary receivable bought		6,297	0.8	1,799	0.2	999	0.1
Money trust		9,173	1.1	15,528	1.9	13,958	1.5
Securities		734,046	91.3	771,383	92.0	851,739	93.7
Buildings		45	0.0	42	0.0	39	0.0
Total of investments assets		793,033	98.6	826,779	98.6	896,723	98.6
Total assets		804,333	100.0	838,555	100.0	908,963	100.0

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

Division	Fiscal Year	2004		2005		2006	
		Amount	Percentage composition (%)	Amount	Percentage composition (%)	Amount	Percentage composition (%)
Deposits		85	0.18	91	0.20	143	0.33
Call loan		0	0.05	0	0.05	-	-
Monetary receivables bought		14	0.17	4	0.12	2	0.30
Money trust		75	0.78	86	0.57	52	0.38
Securities		9,140	1.30	10,307	1.40	11,705	1.46
Buildings		-	-	-	-	-	-
Total		9,315	1.21	10,490	1.31	11,904	1.39

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 investment assets while the denominator is an acquisition cost based assets.

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)

Division	Fiscal Year	2005			2006		
		Amount of numerator	Amount of denominator	Yield on working assets (%)	Amount of numerator	Amount of denominator	Yield on working assets (%)
Deposits		91	46,885	0.20	143	43,612	0.33
Call loan		0	208	0.05	-	-	-
Bond trading with repurchase agreement		-	-	-	-	-	-
Monetary receivables bought		4	3,918	0.12	2	842	0.30
Commodity securities		-	-	-	-	-	-
Money trust		270	15,260	1.77	265	13,730	1.93
Securities		9,595	737,410	1.30	11,885	799,894	1.49
Public and corporate bonds		4,051	548,823	0.74	4,874	589,636	0.83
Stocks		-	-	-	-	-	-
Foreign securities		5,594	178,579	3.13	7,005	198,508	3.53
Other securities		△51	10,007	△0.52	5	11,749	0.05
Loan		-	-	-	-	-	-
Buildings		-	45	-	-	-	-
Financial derivative		△3,457	-	-	△3,425	-	-
Others		105	-	-	65	-	-
Total		6,609	803,728	0.82	8,938	858,121	1.04

Note:

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

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: Million yen)

Fiscal Year	2005			2006		
	Amount of numerator	Amount of denominator	Yield on working assets (%)	Amount of numerator	Amount of denominator	Yield on working assets (%)
Deposits	91	46,885	0.20	143	43,612	0.33
Call loan	0	208	0.05	-	-	-
Bond trading with repurchase agreement	-	-	-	-	-	-
Monetary receivables bought	4	3,918	0.12	2	842	0.30
Commodity securities	-	-	-	-	-	-
Money trust	495	15,434	3.21	96	14,128	0.68
Securities	△5,171	742,714	△0.70	16,588	790,431	2.10
Public and corporate bonds	△7,147	553,869	△1.29	8,817	583,484	1.51
Stocks	-	-	-	-	-	-
Foreign securities	2,021	178,946	1.13	7,589	195,301	3.89
Other securities	△45	9,897	△0.46	180	11,646	1.55
Loans	-	-	-	-	-	-
Buildings	-	45	-	-	41	-
Financial derivative	△3,457	-	-	△3,425	-	-
Others	105	-	-	65	-	-
Total	△7,931	809,205	△0.98	13,470	849,058	1.59

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 fluctuations in market price appraisal while the denominator is market-price based assets.

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: Million yen)

Year	As of the end of fiscal 2004		As of the end of fiscal 2005		As of the end of fiscal 2006	
	Amount	Percentage composition (%)	Amount	Percentage composition (%)	Amount	Percentage composition (%)
Division						
Foreign currency denominated						
Foreign public and corporate bonds	137,611	82.7	167,736	83.2	163,130	76.2
Yen denominated						
Foreign public and corporate bonds	28,709	17.3	33,905	16.8	50,819	23.8
Total	166,320	100.0	201,642	100.0	213,950	100.0
Yield on foreign loans & investment						
Investments assets yield (income yield)	2.84%		3.36%		3.53%	
Assets management (realized yield)	2.69%		3.13%		3.53%	
Comprehensive market price yield (for reference)	1.41%		1.13%		3.89%	

Note:

1. Of the yield on foreign loans & investments, the investment asset yield was calculated in the same manner as 3., Amount of interest and dividend received and yield on investment assets (income yield) in connection with the assets involving foreign investment.

2. Of the yield on foreign investments, the asset management yield was calculated in the same manner as 4., Asset management yield (realized yield) in connection with the assets involving foreign investment.

7. Balance of securities by category and percentage distribution

(Unit: Million yen)

Year	As of the end of fiscal 2004		As of the end of fiscal 2005		As of the end of fiscal 2006	
	Amount	Percentage composition (%)	Amount	Percentage composition (%)	Amount	Percentage composition (%)
Division						
Government bonds	256,145	34.9	310,554	40.3	411,753	48.3
Municipal bonds	17,940	2.4	4,476	0.6	4,390	0.5
Corporate bonds	287,238	39.1	239,851	31.1	212,777	25.0
Stocks	-	-	-	-	-	-
Foreign securities	166,320	22.7	201,642	26.1	213,950	25.1
Other securities	6,401	0.9	14,858	1.9	8,869	1.1
Loan receivable in securities	-	-	-	-	-	-
Total	734,046	100.0	771,383	100.0	851,739	100.0

8. Yield on securities held

(Unit: %)

Division	Fiscal Year		
	2004	2005	2006
Investment assets yield (income yield)			
Public & corporate bonds	0.88	0.78	0.76
Stocks	-	-	-
Foreign securities	2.84	3.36	3.53
Other securities	0.28	0.56	2.06
Total	1.30	1.31	1.46
Assets management yield (realized yield)			
Public & corporate bond	0.89	0.74	0.83
Stocks	-	-	-
Foreign securities	2.69	3.13	3.53
Other securities	△0.03	△0.52	0.05
Total	1.27	0.82	1.49
Market price yield (for reference)			
Public & Corporate bonds	0.96	△1.29	1.51
Stocks	-	-	-
Foreign securities	1.41	1.13	3.89
Other securities	△1.29	△0.46	1.55
Total	1.04	△0.98	2.10

9. Balance Current Maturity of securities by category

As of the end of fiscal 2005

(Unit: Million yen)

Division	Year							Total
	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		
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	

As of the end of fiscal 2006

(Unit: Million yen)

Division	Year						Total
	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	
Government bonds	48,073	126,365	211,470	-	-	25,843	411,753
Municipal bonds	-	4,312	77	-	-	-	4,390
Corporate bonds	47,939	94,263	70,077	99	397	-	212,777
Stocks	-	-	-	-	-	-	-
Foreign securities	21,464	112,657	61,789	-	18,037	-	213,950
Other securities	-	995	-	-	-	7,874	8,869
Loan receivable in securities	-	-	-	-	-	-	-
Total	117,478	338,594	343,414	99	18,435	33,717	851,739

10. Tangible fixed assets by breakdown

(Unit: Million yen)

Division	Year		
	As of the end of fiscal 2004	As of the end of fiscal 2005	As of the end of fiscal 2006
Land	-	-	-
(for underwriting)	(-)	(-)	(-)
(for investment)	(-)	(-)	(-)
Buildings	45	42	39
(for underwriting)	(45)	(42)	(39)
(for investment)	(-)	(-)	(-)
Construction in progress	-	-	-
(for underwriting)	(-)	(-)	(-)
(for investment)	(-)	(-)	(-)
Total of property	45	42	39
(for underwriting)	(45)	(42)	(39)
(for investment)	(-)	(-)	(-)
Others	3	2	3
Total	48	45	42

There are no notes with respect to 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 designated 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 CONCEPTS

1. Financial statements

① Balance sheets

(ASSETS)

Item	(Unit: Million yen)			
	2005		2006	
	(As of March 31, 2006)		(As of March 31, 2007)	
Fiscal Year	Amount	Percentage distribution	Amount	Percentage distribution
Cash & deposits	38,026	4.5	29,986	3.3
Deposits	38,026		29,986	
Monetary receivable bought	1,799	0.2	999	0.1
Money trust	15,528	1.9	13,958	1.5
Securities	771,383	92.0	851,739	93.7
Government bonds	310,554		411,753	
Municipal bonds	4,476		4,390	
Corporate bonds	239,851		212,777	
Foreign securities	201,642		213,950	
Other securities	14,858		8,869	
Property & Equipment	45	0.0	-	
Buildings	42		-	
Equipment	2		-	
Tangible fixed assets	-		42	0.0
Buildings	-		39	
Other tangible fixed assets	-		3	
Intangible fixed assets	-		4	0.0
Software	-		4	
Other intangible fixed assets	-		0	
Other assets	11,686	1.4	12,155	1.3
Reinsurance balance receivable	8,172		8,205	
Accounts receivable	427		292	
Uncollected income	2,910		3,348	
Deposits	51		51	
Suspense payment	96		96	
Financial derivative	20		161	
Other assets	6		-	
Deferred tax assets	85	0.0	76	0.0
Total assets	838,555	100.0	908,963	100.0

(LIABILITIES)

Item	(Unit: Million yen)			
	2005		2006	
	(As of March 31, 2006)		(As of March 31, 2007)	
Fiscal Year	Amount	Percentage distribution	Amount	Percentage distribution
Underwriting funds	451,997	53.9	495,446	54.2
Outstanding claims	1,104		1,545	
Underwriting reserves	450,892		490,901	
Entrusted reserves	377,390	45.0	401,383	44.2
Other liabilities	16,503	2.0	17,940	2.0
Reinsurance balance payable	5,390		5,457	
Corporate taxes payable	114		195	
Deposits payable	2		2	
Accrued amounts payable	702		756	
Financial derivative	10,292		11,528	
Accrued severance benefits	83	0.0	97	0.0
Reserves for directors' retirement benefit	7	0.0	11	0.0
Reserves for bonus payment	14	0.0	16	0.0
Price fluctuation reserves	7	0.0	8	0.0
Net unrealized gains on other securities of earthquake insurance	△9,054	△1.1	△4,540	△0.5
Total liabilities	836,949	99.8	907,363	99.8

(SHAREHOLDERS' EQUITY)

Item	(Unit: Million yen)			
	2005		2006	
	(As of March 31, 2006)		(As of March 31, 2007)	
Fiscal Year	Amount	Percentage distribution	Amount	Percentage distribution
Common stock	1,000	0.1	-	-
Retained earnings	617	0.1	-	-
Legal reserve of retained earnings	1		-	
Voluntary reserves	56		-	
(Special reserves)	(17)		(-)	
(Special price fluctuation reserves)	(39)		(-)	
Unappropriated retained earnings for the year	559		-	
(Net income)	(36)		(-)	
Net unrealized gains on other securities	△5	△0.0	-	-
Treasury Stock	△5	△0.0	-	-
Total shareholders' equity	1,605	0.2	-	-
Total liabilities and shareholders' equity	838,555	100.0	-	-

(NET ASSETS)

Item	(Unit: Million yen)			
	2005		2006	
	(As of March 31, 2006)		(As of March 31, 2007)	
Fiscal Year	Amount	Percentage distribution	Amount	Percentage distribution
Common stock	-	-	1,000	0.1
Retained earnings	-	-	600	0.1
Legal reserve of retained earnings	-		1	
Other legal reserve of retained earnings	-		599	
Special reserves	-		17	
Special price fluctuation reserves	-		39	
Retained earnings brought forward	-		542	
Treasury Stock	-	-	△5	△0.0
Total shareholders' equity	-	-	1,594	0.2
Net unrealized holding gain on securities	-	-	5	0.0
Total valuation and translation adjustments	-	-	5	0.0
Total net assets	-	-	1,600	0.2
Total liabilities and net assets	-	-	908,963	100.0

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

- (1) Of other securities, those to which the market price is applicable is appraised according to the market price at term end.
- (2) Of other securities, those to which the market price is not applicable is appraised based on cost or write-off cost price using the moving-average method.
- (3) With respect to the unrealized gain of assets corresponding to the underwriting reserves and entrusted reserves of earthquake insurance, the amount before tax effect deduction is shown as an Net unrealized gains on other securities of earthquake insurance in Liabilities, according to the pertinent Enforcement Rules of Insurance Business Act. For other unrealized gains, the amount after tax effect deduction is processed entirely according to the direct capital injection method and indicated in Shareholders' Equity. The calculation of the sales price is 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 is done on the basis of market price.
- (2) In money trust exclusively operated with a view to holding securities which is not intended to be operated or held to maturity, the appraisal of securities operated as trust assets is done in the same manner as other securities.

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

4. The depreciation of tangible fixed assets is done using the declining balance method.

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

6. Writing standards of reserves

- (1) Reserve for bad debts
Reserves for bad debts are written as follows against losses 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 effectively 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 past bad debts and other factors is multiplied by the amount of claims to appropriate for reserves.

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

There are no assets in the current term that are to be appropriated for reserves, and no reserve is required.

(2) Reserves for employees' retirement

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

(3) Reserves for directors' retirement benefit

For reserves for directors' retirement benefits, the benefits to be paid at the end of the term are recorded according to the relevant in-house rules.

- (4) Accrued bonuses for employees
Accrued bonuses for employees' bonus is calculated according to the standards of estimated bonus payable.
- (5) Reserves for price fluctuation
To prepare for a loss from price changes of shares and others, reserves are appropriated according to Article 115, Insurance Business Law.
7. Taxes are excluded when preparing accounts for consumption tax and other items. However, taxes are included when recording loss adjustment expenses and operating, general and administrative expenses. Consumption taxes and other items for assets that are not subject to deductions are recorded as suspense payments and written down by an equal amount over five years.
8. The risk reserves contained in the underwriting reserves have been deposited according to the instructions for the calculation of liability reserves by accumulating the amounts resulting from subtracting an amount equivalent to corporate taxes from the net premiums written and profit from operating the assets.
9. Financial lease transactions other than those in which the ownership of the leased item is deemed to be transferred to the leaseholder are processed according to the method equivalent to that of ordinary lease transactions.
10. Changes in accounting policies
Accounting standard for presentation of net assets in the balance sheet, etc.
The "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan (ASBJ) Statement No. 5 on December 9, 2005) and the "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8 on December 9, 2005) are applied from this fiscal year. There is no effect of this application on profit and loss for the current fiscal year.
The amount equivalent to total shareholders' equity in the past is 1,600 million yen.
11. Changes in presentation methods
We have changed the form of the balance sheet following the amendment of the Enforcement Rules of Insurance Business Act and the enforcement of the Corporate Calculation Regulations. Major changes from the previous year are as follows:
(1) "Property & Equipment" has been changed to "Tangible fixed assets."
(2) Software and others that is included in "Other assets" are presented as "Intangible fixed assets."
(3) "Net unrealized gains on other securities" has been changed to "Net unrealized gains on other securities."
(4) "Special price fluctuation reserves" is presented as a component in "Reserves under special laws."
12. The accumulated depreciation of tangible fixed assets is 73 million yen.
13. The total sum of deferred tax assets reach 81 million yen while the total sum of tax liabilities come to 4 million yen. The deferred tax assets are by breakdown an unpaid taxes amount of 32 million yen, a retirement benefit reserve of 35 million yen and a bonus reserve of 5 million yen. The deferred tax liabilities come mainly from an unrealized gain of 4 million yen of securities.
14. In addition to the equipment mentioned in B/S, some computers are used on a lease contract.
15. Net assets per share is 804.80 yen. The basis for this calculation is such that net assets is 1,600 million yen, net assets accrued from ordinary shares is 1,600 million yen and the number of ordinary shares at the end of the term amount to 1 million 988 thousand.
16. The amounts are indicated by rounding down any amount not reaching the unit as mentioned.

② Statements of income

(Unit: Million yen)

Item	Fiscal Year	
	2005 (from April 1, 2005 to March 31, 2006)	2006 (from April 1, 2006 to March 31, 2007)
	Amount	Amount
Ordinary incomes	107,868	90,373
Underwriting incomes	91,001	72,451
Net premiums written	71,132	67,981
Reversal of outstanding claims	16,773	-
Investment income on savings premium, etc	3,095	4,469
Investment income	16,846	17,920
Interest and dividend income	10,403	11,851
Profit from operating monetary trust	376	265
Realized gain on sale of securities	92	426
Foreign exchange gain	8,964	9,779
Profit from other operations	105	66
Transfer of profit from Investment income on savings premiums	△3,095	△4,469
Other ordinary incomes	20	1
Ordinary expenses	107,845	90,229
Underwriting expenses	90,580	71,804
Net claims paid	24,662	2,240
Loss adjustment expenses	2,266	287
Agency commissions and brokerage fees	28,560	28,827
Provision for outstanding claims	-	440
Provision for underwriting reserves	35,089	40,008
Investment expenses	13,331	13,452
Loss from operating monetary trust	105	-
Realized loss on sale of securities	689	246
Loss on securities refund	114	-
Financial derivative cost	12,422	13,205
Other operation cost	0	0
Operating, general and administrative expenses	894	964
Other ordinary expenses	3,038	4,008
Interest paid	3,038	4,008
Ordinary profit	23	143
Extraordinary losses	7	0
Provision for price fluctuation reserve	7	0
Income before taxes	15	143
Income taxes - current	0	158
Income taxes - deferred	△21	2
Net income	36	△16

Notes for fiscal 2006

1. See below for the net premiums written by break-down.

Premiums written:	139,172 (million yen)
Reinsurance premiums ceded:	71,190 (million yen)
Net premiums written:	67,981 (million yen)

2. The interests and dividends income are given below by category:

Interest on deposits:	143 (million yen)
Interest on monetary receivable bought:	2 (million yen)
Interest on securities:	11,705 (million yen)
Total:	11,851 (million yen)

3. Paper profit/loss involved in the financial derivative expenses is a loss of 11,366 million yen.

4. The net income per share is -8.47 yen.

The basis for this calculation is such that the net income is 16 million yen, the net income accrued from ordinary shares is 16 million yen and the term average No. of ordinary shares amount to 1 million 988 thousand.

5. The legal effective tax rate of the term is 36.21%, and the rate of burden of corporate taxes after applying tax effect is △111.72%. The difference is explained by the following breakdown. The amount of write-off carries from publicity expenses related to risk reserve is △26.26%, nondeductible amount of taxable additions to risk reserve is 134.83%, the surplus of profit from operating unearned premium deposits is △43.86%, and the tax loss carried forward is △77.52%.

6. Each amount is rounded down to the nearest whole unit.

③ Statements of cash flow

(Unit: Million yen)

Item	Fiscal Year	
	2005 (from April 1, 2005 to March 31, 2006)	2006 (from April 1, 2006 to March 31, 2007)
	Amount	Amount
I. Cash flow from operating activities		
Net profit before income taxes	15	143
Depreciation	5	5
Increase in outstanding claims	△16,773	440
Increase in underwriting reserves	35,089	40,008
Increase in entrusted reserves	22,907	23,993
Increase in reserves for employees' retirement and severance benefits	10	13
Increase in directors' retirement benefit reserves	7	4
Increase in accrued bonuses for employees	1	1
Increase in reserve for price fluctuation	7	0
Interest and dividend income	△10,403	△11,851
Gain or loss on investment in securities	711	△180
Foreign exchange gain or loss	△8,705	△7,113
Increase in other assets (other than investment and financial activities related)	△377	102
Increase in other liabilities (other than investment and financial activities related)	418	121
Others	7,486	1,068
Subtotal	30,402	46,757
Interest and dividends received	10,019	11,295
Income taxes paid	△10	△51
Net cash provided by operating activities	40,410	58,001
II. Cash flow from investing activities		
Net increase in deposits at bank	-	1,930
Acquisition cost of monetary receivables bought	△3,497	△499
Proceeds from the sales or maturity of monetary receivables	7,796	1,498
Expenses for increase in monetary trust	△10,130	-
Proceeds from sales of money trust	4,000	1,400
Purchase of securities	△332,403	△512,329
Proceeds from sales and redemption of securities	288,186	444,088
II ① Subtotal	△46,049	△63,912
(I + II ①)	(△5,638)	(△5,910)
Acquisition of property and equipment	△5	-
Acquisition of tangible fixed assets	-	△0
Others	-	△0
Net cash used in investing activities	△46,054	△63,913
III. Cash flow in financing activities		
IV. Effect of exchange rate changes on cash and cash equivalents	-	-
V. Net change in cash and equivalents	△5,643	△5,911
VI. Cash and cash equivalents at the beginning of the year	17,140	11,496
VII. Cash and cash equivalents at the end of the year	11,496	5,585

Notes

1. Relationship of cash and cash equivalents at the end of the year with the amounts mentioned in the relevant balance sheet item.

(Unit: Million yen)

Item	Fiscal Year	
	(As of March 31, 2006)	(As of March 31, 2007)
Cash & deposits	38,026	29,986
Monetary receivables bought	1,799	999
Securities	771,383	851,739
Deposits of a depository period of three months or longer	△27,330	△25,400
Monetary receivables bought other than cash equivalent	△999	-
Securities other than cash equivalent	△771,383	△851,739
Cash and cash equivalents	11,496	5,585

2. Cash flow in investing activities includes cash flow from the investment assets operations in the insurance business.

④ Distribution of net profits

(Unit: Million yen)

Item	Fiscal Year	
	2006	2005
Unappropriated retained earnings for the year		559
Retained earnings carried forward		559

⑤ Statement of Changes in Shareholders' Equity for fiscal 2006 (from April 1, 2006 to March 31, 2007)

(Unit: Million yen)

	Shareholders' equity									Total shareholders' equity	
	Capital stock	Capital surplus			Legal earned reserve	Earned surplus			Total earned surplus		Treasury stock
		Capital surplus	Other capital reserve	Total capital surplus		Other earned surplus					
						Special reserves	Special price fluctuation reserves	Earned surplus carried forward			
Balance as of March 31, 2006	1,000				1	17	39	559	617	△5	1,611
Amount of change during the term											
Issuance of new shares											
Dividends from surplus											
Net income								△16	△16		△16
Net amount of changes in items other than owners' equity during the term											
Total change during the term								△16	△16		△16
Balance as of March 31, 2007	1000				1	17	39	542	600	△5	1,594

	Valuation and translation adjustments				Stock subscription rights	Total net assets
	Net unrealized gains on other securities	Deferred gains or losses on hedges	Land revaluation surplus	Total valuation and translation adjustments		
Balance as of March 31, 2006		△5			△5	1,605
Amount of change during the term						
Issuance of new shares						
Dividends from surplus						
Net income						△16
Net amount of changes in items other than owners' equity during the term		11			11	11
Total change during the term		11			11	△5
Balance as of March 31, 2007		5			5	1,600

Notes:

1. The number of shares issued as at the end of fiscal 2006 is 2 million shares of common stock.
2. The number of treasury stock at the end of fiscal 2006 is 11,400 shares of common stock.

⑥ Dividend per stock and total assets per employee

(Unit: Million yen)

Division	Fiscal Year		
	2004	2005	2006
Dividend per stock	-	-	-
Net income per stock	5.30 yen	18.23 yen	△8.47 yen
Dividend propensity	-	-	-
Net assets per stock	798.07 yen	807.42 yen	804.80 yen
Total assets per employee	44,685	39,931	43,283

Notes:

1. Net income per share comes from net income / term average No. of stocks
2. The number of treasury stock 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 are no notes about the following five items:

- (1) Currently in bankruptcy
- (2) Delinquent in payments
- (3) Payments more than three months in arrears
- (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 notes required.

4. Credits obligations based on debtor classification

There are no notes 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: Million yen)				
Division	Year	As of the end of fiscal 2004	As of the end of fiscal 2005	As of the end of fiscal 2006
Total of solvency-margin		359,908	375,606	411,687
Total of stockholders' equity (other than estimated outflow to the outside, deferred assets and Net unrealized gains on other securities)		1,575	1,611	1,594
Price fluctuation reserve		0	7	8
Catastrophe reserves		355,813	378,731	412,364
Reversal for ordinary bad debts		-	-	-
(A) Variance of estimate for other securities (excluded deductions for Tax Consequences) unrealized gain / loss on securities available for sale		2,520	△4,743	△2,279
Unrealized gain and loss included land holdings		-	-	-
Funding instruments with a debt-like nature		-	-	-
Items deductible		-	-	-
Others		-	-	-
Total risk		394,964	468,880	469,506
$\sqrt{R1^2 + (R2+R3)^2} + R4 + R5$				
General underwriting risk (R1)		-	-	-
(B) Anticipated Rate of Return Risk (R2)		-	-	-
Investment risk (R3)		7,190	7,676	8,290
Management risk (R4)		7,744	9,193	9,206
Catastrophe risk (R5)		380,030	452,010	452,010
(C) Solvency-Margin ratio				
$(A) / \{ (B) \times 1 / 2 \} \times 100$		182.2%	160.2%	175.3%

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

The non-life insurance company deposit reserves in case that they pay insurance money for any insurance accident that occurred or refund depository insurance at maturity. It is also necessary for them to maintain a satisfactory ability to make payments 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 ability to make payments by owned assets and reserves (A in the above table) over any risk unforeseeable (B in the above table)" is indicated as the solvency-margin ratio (C in the above table) which is calculated according to the pertinent rules, including the Insurance Business Law.

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

- 1. General underwriting risk:** risk associated with an insurance accident rate that is higher than normally predictable (other than the risk associated with a huge disaster).
- 2. Anticipated ratio of Return Risk:** risk that might arise when actual yields from operation are lower than original at the time of calculating premiums of a depository insurance
- 3. Investment risk:** management risk that might arise when the value of assets owned including securities changes in an unforeseeable manner.
- 4. Management risk:** risk that might arise on business management in an unforeseeable manner, other than 1~3 and 5.
- 5. Catastrophe risk:** risk that might arise with 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 reserve, 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 check insurance companies to determine the soundness of management for supervisory purposes. When the rate is 200% or more, the insurance company is deemed satisfactory in terms of its ability to make insurance and other payouts.

© 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 for support and for lending 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, irrespective of the above solvency-margin ratio, as provided 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 market prices (acquisition cost or contract cost, market price and appraisal profit and loss) and others

① Securities

1. Other securities with market price

At the end of fiscal 2005 (Unit: Million yen)

Division	Type	Acquisition cost	Book value	Difference
Securities with acquisition cost higher than that posted on the balance sheet	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 that posted on the balance sheet	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

At the end of fiscal 2006

(Unit: Million yen)

Division	Type	Acquisition cost	Book value	Difference
Securities with acquisition cost higher than that posted on the balance sheet	Public & corporate bonds	197,594	198,763	1,169
	Stocks	-	-	-
	Foreign securities	156,809	171,806	14,996
	Others	2,800	2,921	121
	Subtotal	357,203	373,492	16,288
Securities with acquisition cost not higher than that posted on the balance sheet	Public & corporate bonds	433,535	430,156	△3,378
	Stocks	-	-	-
	Foreign securities	42,603	42,143	△460
	Others	5,997	5,947	△50
	Subtotal	482,136	478,247	△3,888
Total		839,340	851,739	12,399

2. Other securities sold at the term

(Unit: Million yen)

Type	Fiscal 2005			Fiscal 2006		
	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	51,149	92	689	67,531	426	246

There are no notes with respect to the following items:

1. Securities held for trading purposes
2. Securities to be held until maturity and with market price
3. Securities sold at the term which were to be held until maturity
4. Main contents of securities without market price and the amounts posted on the balance sheet.

② Money trust

1. Money trust for investment

(Unit: Million yen)

Type	As of end of fiscal 2005		As of end of fiscal 2006	
	Amount posted on the balance sheet	Appraisal difference contained in profit/loss	Amount posted on the balance sheet	Appraisal difference contained in profit/loss
Money trust	10,000	-	10,000	-

2. Money trust for maturity

Nothing to be mentioned.

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

(Unit: Million yen)

Type	As of the end of fiscal 2005			As of the end of fiscal 2006		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Money trust	5,130	5,528	398	3,730	3,958	228

③ Information on transactions involving derivatives

1. On the conditions of transactions

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

The derivative transactions we engage in have market risks associated with market fluctuations. Most of them are done, however, to hedge the as-

sets in kind, and losses from the transaction in question never arise on their own. In some cases, we use options transactions for securities scheduled to be purchased. But risks are limited because we put a quantitative limit on such transactions.

Because we deal with highly reputable financial institutions, we believe that there is little credit risk such as non-fulfillment of a contract.

Our derivatives transactions are checked by the Risk Management Division, independent of the Transactions Execution Division, and the results of the checks are regularly reported to the board of managing directors.

2. On market prices for transactions

A contract amount in a derivative transaction is simply 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: Million yen)

Type	As of end of fiscal 2005			As of end of fiscal 2006				
	Contract amount	Market price	Appraisal profit and loss	Contract amount	Market price	Appraisal profit and loss		
	1 year or longer ones			1 year or longer ones				
Transactions other than market transactions								
Forward foreign exchange contracts								
Currency used								
US dollar	61,231	28,403	66,631	△5,400	56,592	25,889	60,440	△3,848
Euro	83,141	34,779	87,637	△4,496	76,380	33,086	83,738	△7,358
Canadian dollar	2,872	1,211	3,246	△374	3,037	3,037	3,197	△160
Total				△10,272				△11,366

Note: Calculating a market price

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

CORPORATE DATA (as of March 31, 2007)

Established:	May 30, 1966
Capital:	1 billion yen
Total assets:	908 billion yen
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No. of employees:	21
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Japan Earthquake Reinsurance