

# ANNUAL REPORT 2011

Introduction to Earthquake Reinsurance in Japan

Japan Earthquake Reinsurance Co., Ltd.

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## MESSAGE FROM THE PRESIDENT



Chairman:  
Shozo Wakabayashi

President:  
Hideo Suzuki

First, we offer our deepest condolences to victims of the Great East Japan Earthquake and express our heartfelt sympathy to all those affected by the disaster.

Japan Earthquake Reinsurance Co., Ltd. (JER) was founded in 1966 as the only company in Japan permitted to exclusively handle reinsurance for earthquake insurance on dwelling risks. For more than 40 years since then, we have been underwriting the dwelling risk of 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 our reinsurance payment, but also to providing our best care to managing and operating the assets that support the system.

Natural disasters such as major earthquakes and major volcanic eruptions have occurred in countries around the world. In Japan, the Great East Japan Earthquake that struck on March 11 measured 9.0 on the Richter scale, making it the largest earthquake in recorded Japanese history. The earthquake triggered a devastating tsunami, which hit a wide area including the Tohoku and Kanto districts.

JER established emergency headquarters immediately after the earthquake and have since been making comprehensive efforts to respond to the situation. For example, we have been selling assets to enable the early payment of reinsurance and have for the first time applied a system for payment of the approximate amount of earthquake reinsurance.

Because this was the greatest disaster on record, people's expectations and concerns about earthquake insurance will rise, and our company will take on increasingly important roles and responsibilities in the earthquake insurance system. We are aware that we must be even more prudent in our management approach.

In these circumstances, we will play an active role in enhancing and developing the earthquake insurance system and will strive to become company that is even more reliable and trustworthy for its stakeholders.

We have prepared this annual report to provide our stakeholders with insight into the current situation and activities of the Company. We welcome any comments or opinions.

July 2011

Hideo Suzuki  
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 to 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 a 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 theft of the objects of the insurance
- Loss or damage occurring ten days or more after the earthquake
- Loss or damage due to war or insurrection

\* *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 5,500 billion yen as revised in April 2008 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 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 premium rate actually applied is calculated by multiplying the basic rate of the insurance premium that is set according to the structure of the residential building and the residential building to accommodate personal property that are subject to insurance and the building location, by a discount rate set according to the earthquake-resistance capability (for which certain confirmation documents are required).

\* *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*

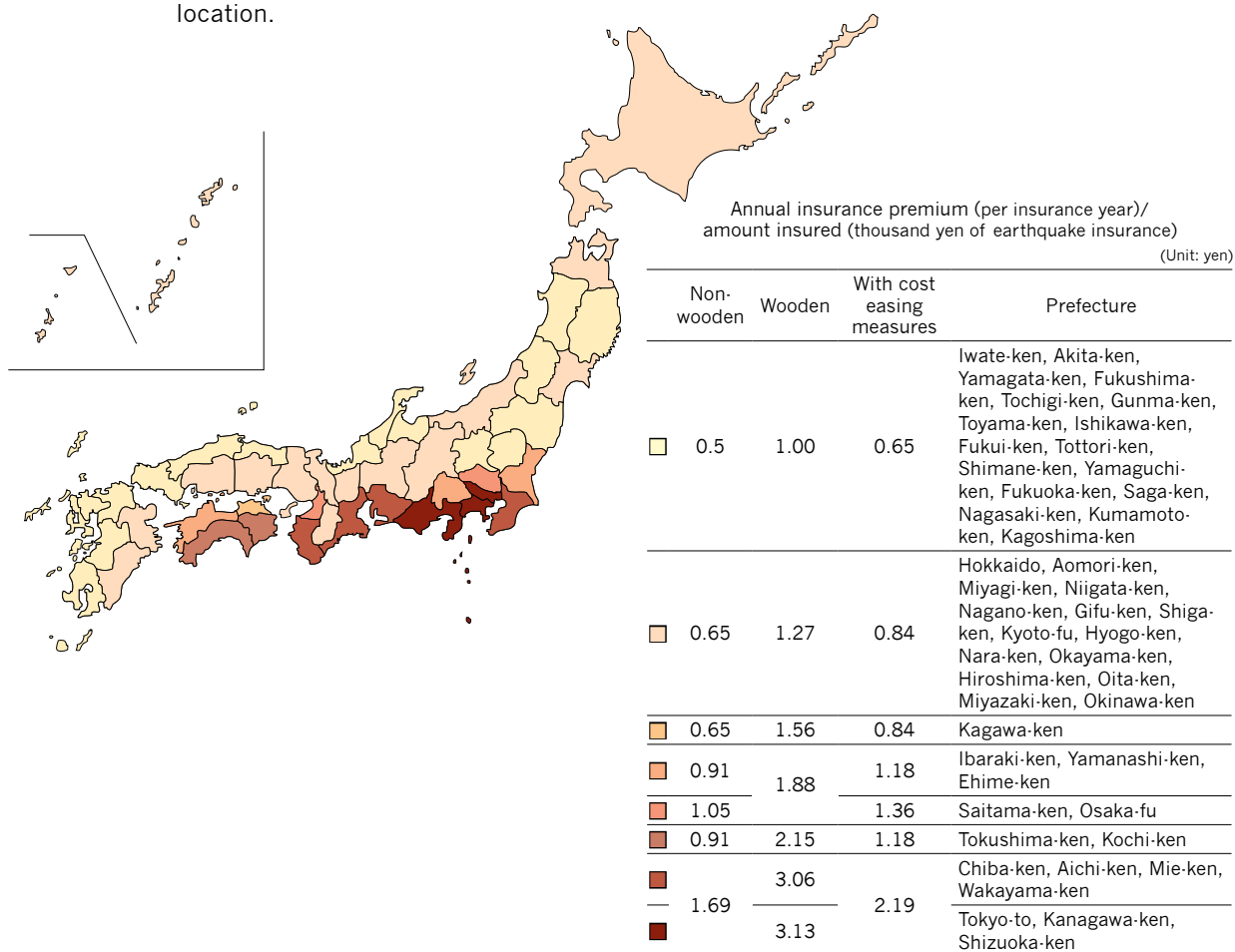
An organization established in accordance with the Law concerning Non-Life Insurance Rating Organizations, which aims to provide a fair basis premium rate applicable to non-life insurance.

\*\*\* *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 July 2010.

## BASIC RATE (APPLICABLE TO BUILDINGS AND PERSONAL PROPERTY)

The basic rate is set according to the structure of the residential building and the residential building to accommodate personal property that are subject to insurance and the building location.







## 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.

### (a) 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%
---------------	-----

### (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%

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#### \* 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 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) 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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**(d) 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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**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:

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

\* *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%

$$\begin{array}{rcccl}
 \text{Earthquake insurance premium} & & \text{Earthquake amount insured} & \text{Earthquake insurance premium rate} & \text{Discount rate} \\
 \text{on residential building} & = & 10,000 & \times \frac{1.27 \times (100\% - 10\%)}{1.14} & = 11,400 \text{ (yen)} \\
 & & \text{(1,000 yen)} & & 
 \end{array}$$

$$\begin{array}{rcccl}
 \text{Earthquake insurance premium} & & \text{Earthquake amount insured} & \text{Earthquake insurance premium rate} & \text{Discount rate} \\
 \text{on personal property} & = & 3,000 & \times \frac{1.27 \times (100\% - 10\%)}{1.14} & = 3,420 \text{ (yen)} \\
 & & \text{(1,000 yen)} & & 
 \end{array}$$

\* 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.

JER reinsures 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.

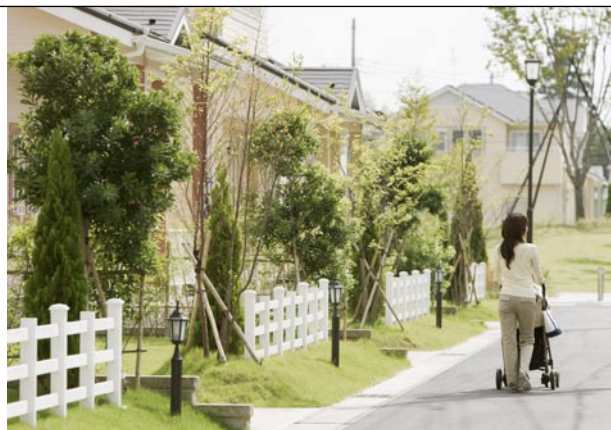
## MECHANISM OF PAYMENT OF INSURANCE CLAIMS

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.

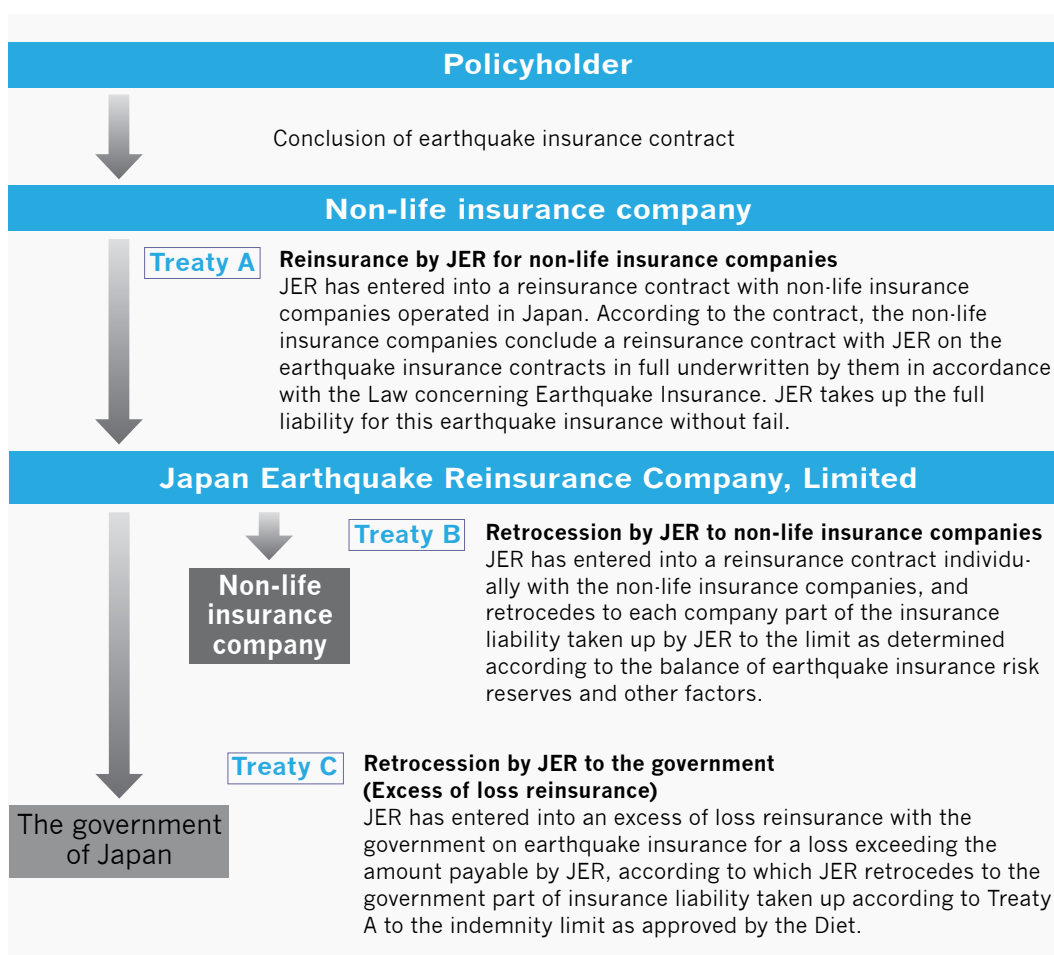
The non-insurance company which paid an insurance claim to the policyholder will claim the full amount from JER through reinsurance. JER will pay the reinsurance claim in full to the non-life insurance company.

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.

When a major earthquake occurs, a nonlife insurance company must make a large amount of money ready so that it can pay a large number of insurance claims. To avoid problems in paying insurance claims, the government has set forth a ministerial ordinance that covers the payment of reinsurance claims pertaining to earthquake insurance based on a rough estimate, and promptly pays reinsurance claims based on a rough estimate (makes a provisional payment) through the Company.



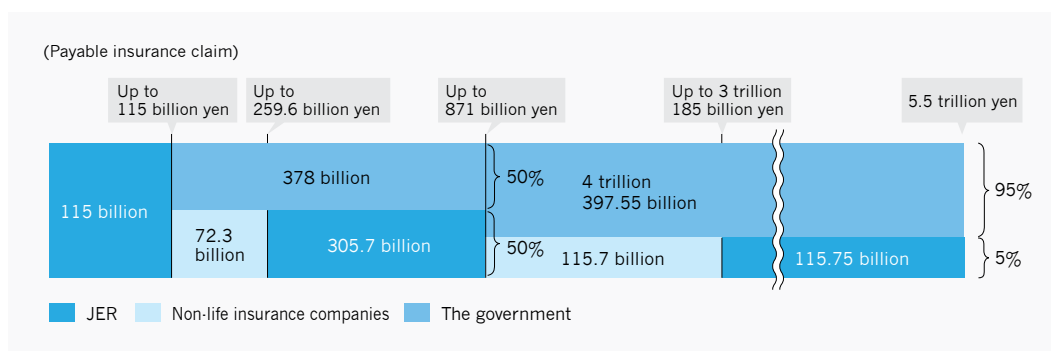
## FLOWCHART OF REINSURANCE OF EARTHQUAKE INSURANCE



## 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 share insurance liabilities, and the way each handles the shared liabilities. Revised as follows on May 2, 2011, in response to the Great East Japan Earthquake that took place on March 11 of the same year.

### REINSURANCE SCHEME

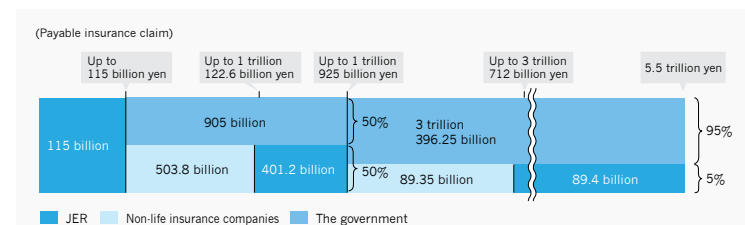


### LIABILITY LIMIT

JER	536.45 billion yen
Non-life insurance companies	188.00 billion yen
The government	4,775.55 billion yen
<b>Total</b> (limit amount of payable insurance claims)	<b>5.50 trillion yen</b>

The previous reinsurance scheme that was effective from April 1, 2009 until May 1, 2011

\*This scheme has been applied to the payment of reinsurance claims for losses or damages caused by the Great East Japan Earthquake.



JER	605.60 billion yen
Non-life insurance companies	593.15 billion yen
The government	4,301.25 billion yen
<b>Total</b> (limit amount of payable insurance claims)	<b>5.50 trillion yen</b>



## THE BALANCE OF RISK RESERVES AT JER AND NON-LIFE INSURANCE COMPANIES AND THE GOVERNMENT LIABILITY RESERVES AT THE END OF FISCAL 2010

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	424.4 billion yen
Non-life insurance companies	489.1 billion yen
The government	1,342.7 billion yen
<b>Total</b>	<b>2,256.3 billion yen</b>

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

## 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	A person of burden			Total
	Portion up to 115 billion yen	Portion over 115 billion yen, and up to 871 billion yen	Portion over 871 billion yen, and up to 2,000 billion yen	
JER	115.0	305.7	—	420.7
Non-life insurance companies	—	72.3	56.45	128.75
The government	—	378.0	1,072.55	1,450.55
<b>Total</b>	<b>115.0</b>	<b>756.0</b>	<b>1,129.0</b>	<b>2,000.0</b>

# 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	23,833	6,513,971	54,530,482	27.3	Nearly 0% - 1%
Earthquake with an epicenter directly below metropolitan Tokyo	16,830	4,705,898	38,779,994	28.0	About 70%
Tokai earthquake	22,661	6,454,799	53,921,073	28.5	87% (reference value)
Tonankai earthquake	21,482	5,706,889	48,053,028	26.6	About 60% - 70%
Nankai earthquake	29,244	7,400,932	62,420,907	25.3	About 60%

Note: The probability that an earthquake could occur within the next 30 years is based on the 2010 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 2010

Reinsurance claims paid in fiscal 2010 amounted to 1,033 million yen, including earthquake reinsurance claims paid to cover the Surugawan Earthquake that occurred in 2009. In terms of numbers, 1,814 claims were paid (on the basis of insurance policies). See below for major claims paid per earthquake. In fiscal 2010, there was no payment of reinsurance claims for losses or damages caused by the Great East Japan Earthquake.

Earthquake	Date of occurrence	Magnitude	No. of policies	Reinsurance claims paid (million yen)
1. Surugawan Earthquake	August 11, 2009	6.5	750	359
2. Izuhanto Toho-oki Earthquake	December 17, 2009	5.1	178	126
3. Iwate-Miyagi Nairiku Earthquake	June 14, 2008	7.2	151	86
Other earthquakes	—	—	735	460
Total	—	—	1,814	1,033





## TOP 20 EARTHQUAKES AS TO REINSURANCE CLAIMS PAID

See the table below for the top 20 earthquakes with respect to reinsurance claims paid since the earthquake insurance was established.

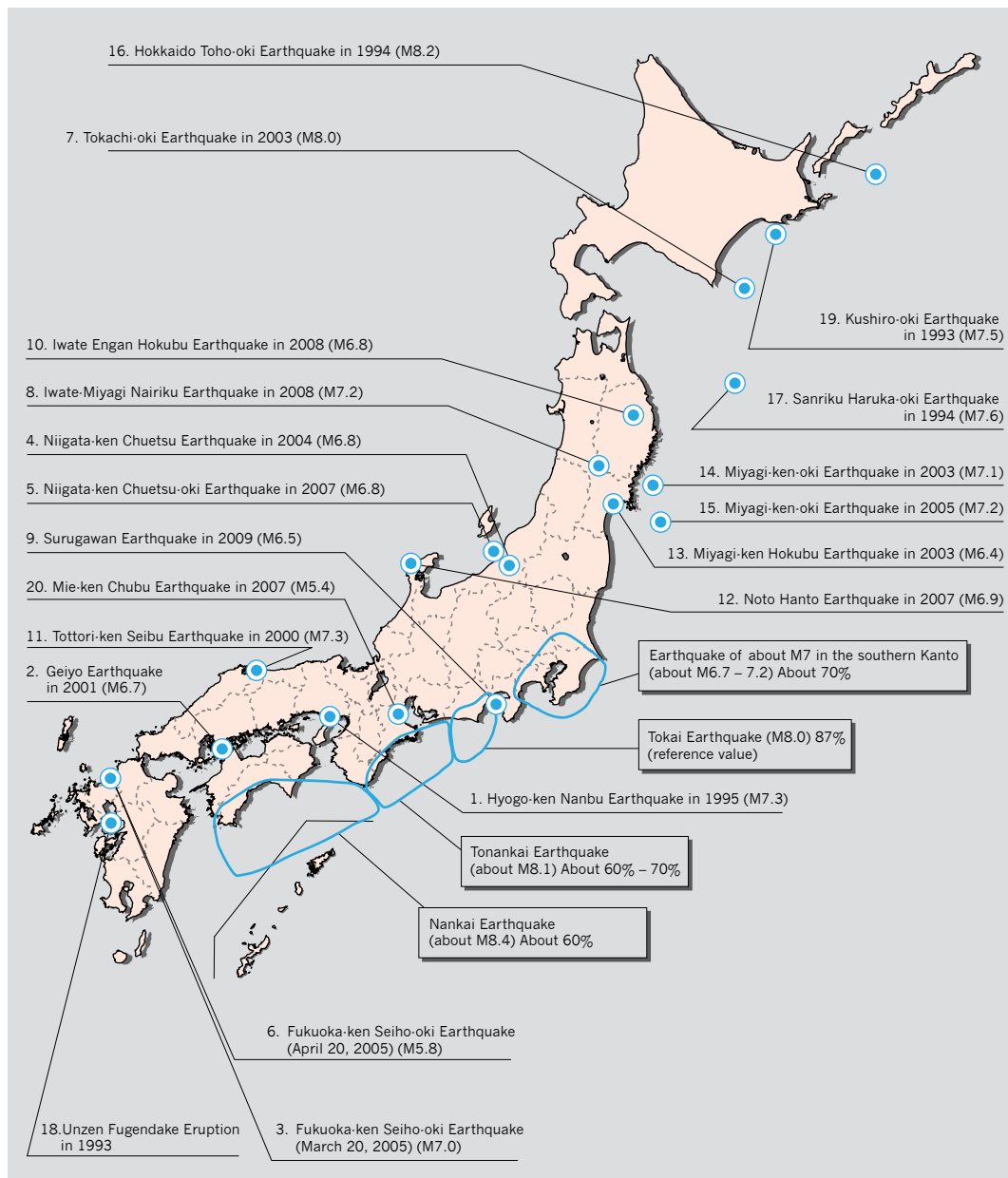
(As of March 31, 2011)

Earthquake	Date of occurrence	Maginitude	No. of policies	Reinsurance claims paid (million yen)
1. Hyogo-ken Nanbu	January 17, 1995	7.3	65,427	78,346
2. Geiyo	March 24, 2001	6.7	24,450	16,940
3. Fukuoka-ken Seiho-oki	March 20, 2005	7.0	21,998	16,921
4. Niigata-ken Chuetsu	October 23, 2004	6.8	12,602	14,895
5. Niigata-ken Chuetsu-oki	July 16, 2007	6.8	7,846	8,238
6. Fukuoka-ken Seiho-oki	April 20, 2005	5.8	11,330	6,423
7. Tokachi-oki	September 26, 2003	8.0	10,548	5,988
8. Iwate-Miyagi Nairiku	June 14, 2008	7.2	8,151	5,494
9. Suruga-wan	August 11, 2009	6.5	8,994	4,868
10. Iwate Engan Hokubu	July 24, 2008	6.8	7,738	3,963
11. Tottori-ken Seibu	October 6, 2000	7.3	4,078	2,868
12. Noto Hanto	March 25, 2007	6.9	3,302	2,728
13. Miyagi-ken Hokubu	July 26, 2003	6.4	2,543	2,172
14. Miyagi-ken-oki	May 26, 2003	7.1	2,970	1,918
15. Miyagi-ken-oki	August 16, 2005	7.2	2,793	1,551
16. Hokkaido Toho-oki	October 4, 1994	8.2	4,103	1,333
17. Sanriku Haruka-oki	December 28, 1994	7.6	4,172	1,237
18. Unzen Fugendake Eruption	April 28, 1993	-	216	1,134
19. Kushiro-oki	January 15, 1993	7.5	3,627	989
20. Mie-ken Chubu	April 15, 2007	5.4	1,563	914

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 20 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.





## THE 2011 OFF THE PACIFIC COAST OF TOHOKU EARTHQUAKE

At 2:46 p.m. on March 11, 2011, the largest earthquake in Japanese recorded history, with a magnitude of 9.0 on the Richter scale, struck off the coast of Sanriku, causing unprecedented damage to the Tohoku and Kanto regions, with violent tremors and a massive tsunami.

To deal with this devastating earthquake, the non-life insurance industry and the government have been working together to pay claims promptly and reliably, helping policyholders put their lives back together.

### EARTHQUAKE SUMMARY

Date and Time:	11 March 2011 14:46 JST (05:46 UTC)
Hypocenter:	Sanriku-oki N38.1, E142.9 (130 km ESE off Oshika Peninsula)
Depth:	24 km (interim value)
Magnitude:	9.0 (interim value; the largest earthquake recorded in Japan)
JMA Seismic Intensity:	7 (Max) Kurihara City of Miyagi Prefecture

### INSURANCE CLAIMS PAID AS TO THE 2011 OFF THE PACIFIC COAST OF TOHOKU EARTHQUAKE

(As of June 29, 2011)

Region	Number of requests received (Note 1)	Number of requests for which research was completed (Note 2)	Number of insurance claims paid	Amount of insurance claims paid (thousand yen)	
Hokkaido	928	850	490	583,813	
Tohoku	Aomori	6,456	6,051	5,146	3,735,936
	Iwate	26,320	24,778	22,051	52,570,600
	Miyagi	250,089	234,719	218,009	494,067,346
	Akita	826	744	583	362,145
	Yamagata	1,865	1,640	1,364	1,215,014
	Fukushima	74,210	68,696	63,746	133,832,039
	Subtotal	359,766	336,628	310,899	685,783,080
Kanto, Koshinetsu, Shizuoka	Ibaraki	98,996	93,166	84,457	130,113,032
	Tochigi	36,124	33,853	29,095	35,958,144
	Gunma	8,226	7,690	6,427	5,628,711
	Saitama	32,054	30,028	22,443	18,827,000
	Chiba	70,015	65,110	54,504	80,519,884
	Tokyo	79,959	74,102	55,562	59,365,349
	Kanagawa	17,029	15,573	10,784	10,050,676
	Niigata	1,329	1,220	912	764,885
	Yamanashi	1,264	1,104	815	700,759
	Nagano	220	204	145	187,985
	Shizuoka	2,386	2,236	1,778	1,339,145
	Subtotal	347,602	324,286	266,922	343,455,570
Other prefectures	593	519	224	272,202	
<b>Total</b>	<b>708,889</b>	<b>662,283</b>	<b>578,535</b>	<b>1,030,094,664</b>	

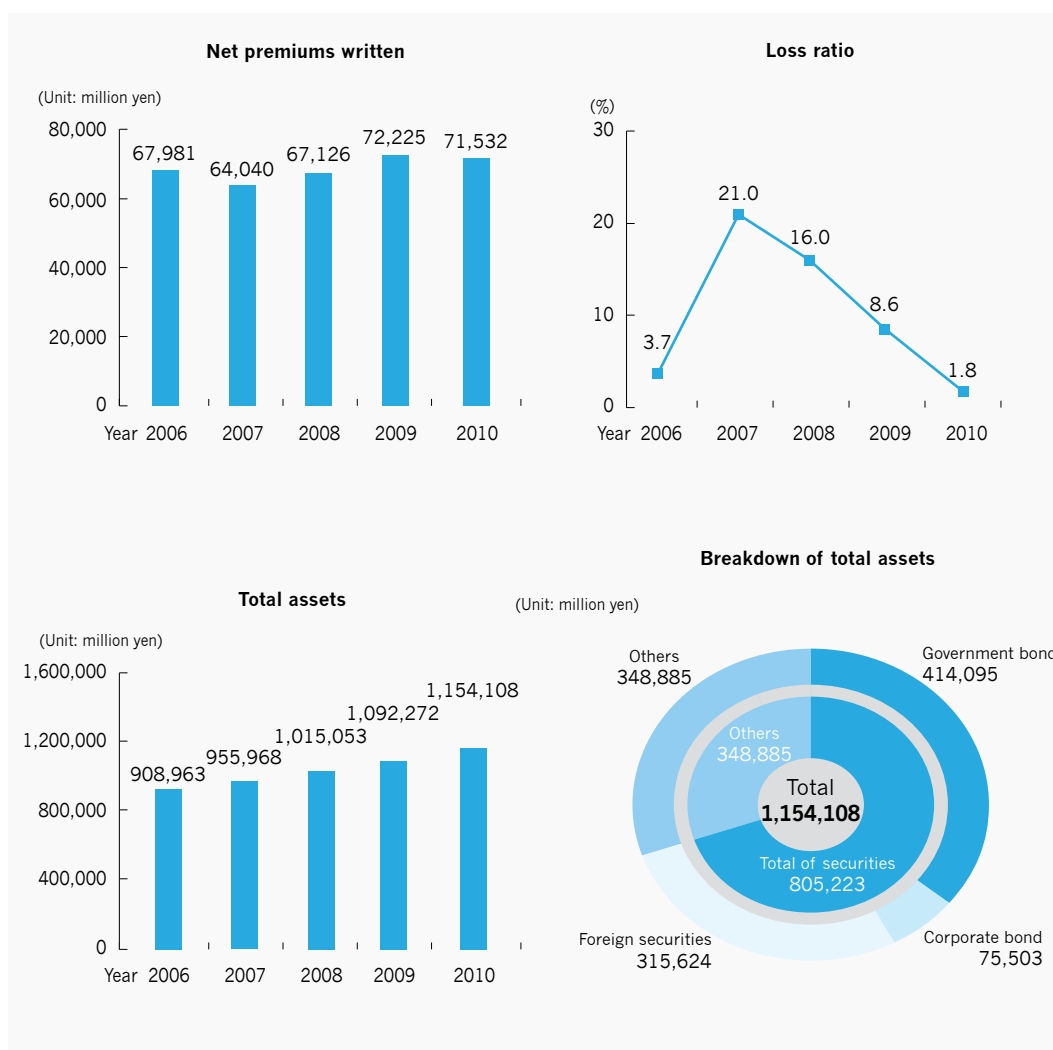
Note 1: "Number of requests received" includes not only requests for research about accidents, but also consultations and inquiries about the details of compensation for earthquake insurance and policies of customers.

Note 2: "Number of requests for which research was completed" includes not only the number of cases in which insurance claims were actually paid after research was completed, but also the number of cases for which insurance claims were not paid and cases that were solved at the stage of receiving consultations or inquiries.

# JAPAN EARTHQUAKE REINSURANCE CO., LTD.

## FINANCIAL HIGHLIGHTS

Although net premiums written in fiscal 2010 declined from the previous year, total assets increased steadily to 1,154.1 billion yen at the end of March 2011. Most of the assets under management are invested in bonds with high credit ratings and liquidity to prepare for the payment of reinsurance claims.





(Unit: Million yen)

Fiscal Year	2006	2007	2008	2009	2010
Net premiums written	67,981	64,040	67,126	72,225	71,532
Loss ratio	3.7%	21.0%	16.0%	8.6%	1.8%
Underwriting income	72,451	67,320	70,546	79,278	148,490
Ordinary profit	143	16	200	951	990
Net income	△16	4	12	5	3
Solvency-margin ratio	175.3%	185.4%	159.1%	161.6%	124.7%
Total shareholders' equity	1,600	1,614	1,617	1,633	1,634
Total assets	908,963	955,968	1,015,053	1,092,272	1,154,108
Net unrealized gains on other securities	5	15	6	16	14
Net unrealized gains on other securities of earthquake insurance	△4,540	1,722	3,063	16,154	8,410

## 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.

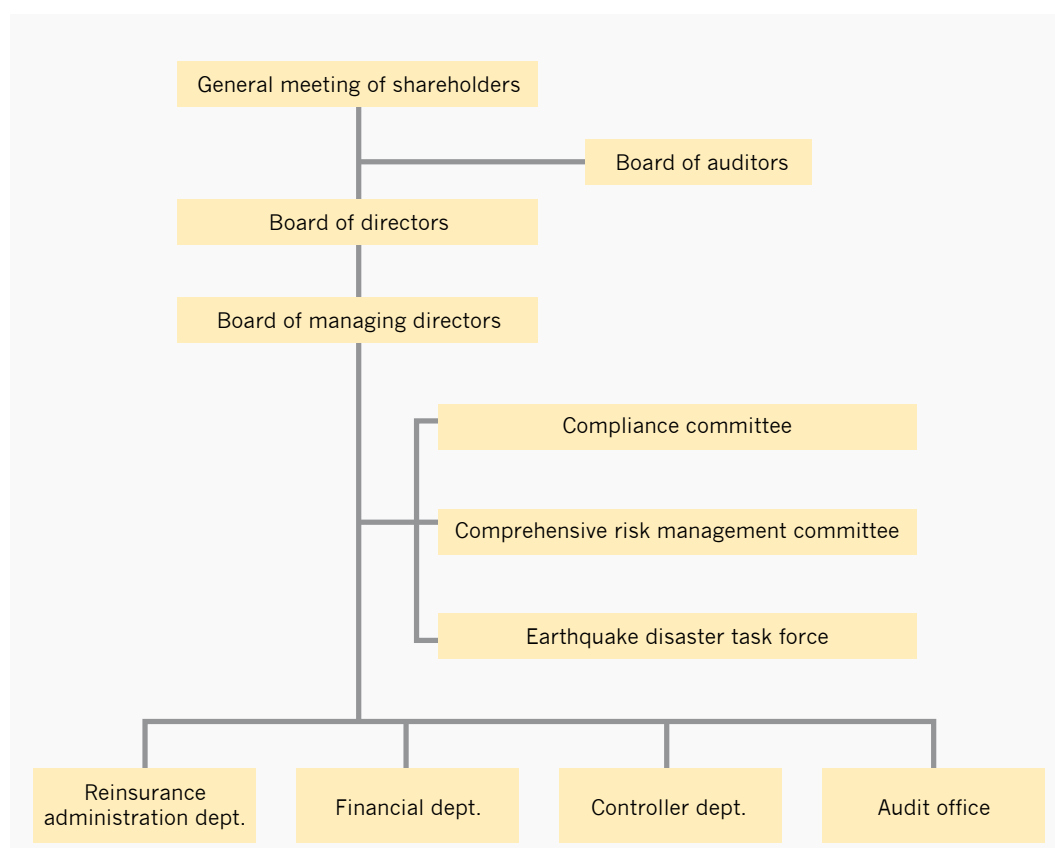
## TOP 10 SHAREHOLDERS

(As of March 31, 2011)

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
Aioi Nissay Dowa Insurance Co., Ltd.	255	12.8
NIPPONKOA Insurance Co., Ltd.	208	10.4
The Fuji Fire and Marine Insurance Co., Ltd.	123	6.2
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
The Asahi Fire and Marine Insurance Co., Ltd.	8	0.4

## ORGANIZATION

(As of April 1, 2011)





## DIRECTORS (FULL-TIME)

(As of July 1, 2011)

Post	Name
Chairman (representative director)	Shozo Wakabayashi
President (representative director)	Hideo Suzuki
Managing director (representative director)	Koichi Kubota
Managing director (representative director)	Tadashi Baba
Corporate auditor	Takashi Shikama

## 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

JER has established the task force against earthquake disasters as a standing in-house organization. Based on annual plans, the task force undertakes training in emergency response and earthquake reinsurance payments, assuming an earthquake with an epicenter directly below metropolitan Tokyo. For instance, it establishes and reviews an emergency response manual. In fiscal 2010, JER contracted with external consultants to examine rules, manuals, etc. (Tokio Marine & Nichido Risk Consulting Co., Ltd.), create a report assuming damages to our company (InterRisk Research Institute & Consulting, Inc.), and provide technical support (NKSJ Risk Management, Inc.). We also undertook an earthquake drill involving all of our officers and employees participated assuming an earthquake with an epicenter directly below metropolitan Tokyo.

#### *First Earthquake Drill*

JER held its first earthquake drill on January 19th, with a focus on the local disaster response system of Chuo-ku, Tokyo, where our office is located. We conducted this drill with the cooperation of the Disaster Prevention Section of Chuo-ku and the neighborhood association of Nihonbashi Kobunacho. The drill included explanations about the disaster response measures of the Tokyo Metropolitan Government and a tour of Jushi Square, the local disaster preparedness center, and the disaster prevention facilities of Horidome Children's Park, the tempo-

rary evacuation area. We also practiced operation of the safety confirmation and information transmission systems.

#### *Second Earthquake Drill*

For the second drill on March 10, we invited Nomura Research Institute, Ltd. and undertook a tabletop exercise assuming an earthquake with an epicenter directly below metropolitan Tokyo and received a lecture on business continuity plans (BCP). In the tabletop exercise, we simulated how officers and employees would gather in the office after the occurrence of the earthquake.

### **OPERATION BASED ON HIGHLY LIQUID ASSETS**

Should an earthquake with an epicenter directly below metropolitan Tokyo strike, 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 and high-rating securities. To reduce price volatility risks at the time of realization, we hold mainly medium-term securities.

### **PREPARATIONS FOR DISASTERS**

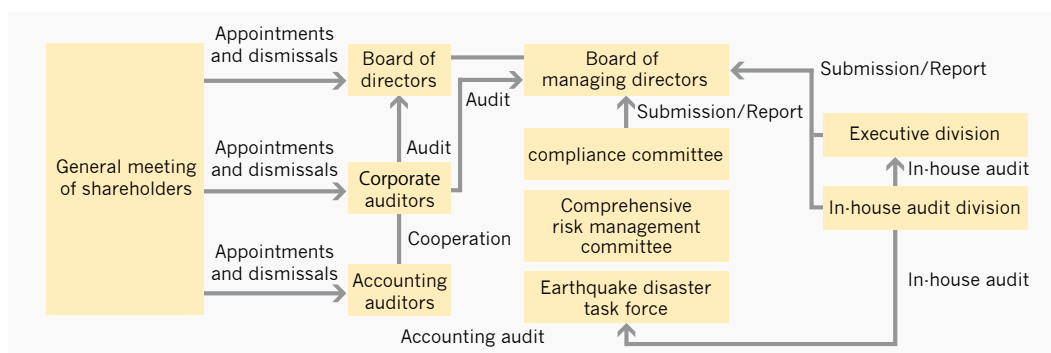
JER has installed in its head office an earthquake alert system provided by the Japan Meteorological Agency to ensure the safety of visitors, officers, and employees. We have also made our office resistant to earthquakes by securing office facilities and equipment, stored emergency supplies in the head office warehouse, and distributed safety shoes, bags containing emergency goods, and other items to all officers and employees. We thus strive to ensure business continuity in the event of an earthquake with an epicenter directly below metropolitan Tokyo.





## CORPORATE GOVERNANCE

### IN-HOUSE GOVERNANCE SYSTEM



### COMMITTEE-BASED OPERATION

We have established a Compliance Committee and a Comprehensive Risk Management Committee and positioned them under the direct control of the Board of Managing Directors. Our aim is to ensure sound and transparent business operations by strengthening the supervisory function with the construction of compliance and risk management systems. Preparing for a major earthquake calamity, the Company is provided with a task force against earthquake 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 AND INSPECTION SYSTEMS

#### OUTSIDE AUDITING AND INSPECTION


The overall management and operations of the Company are subject to inspection by the Financial Services Agency under the Insurance Business Act and inspection by the Ministry of Finance under the Act on Earthquake Insurance.

We also receive an accounting audit by an auditing corporation in accordance with the Companies Act.

#### IN-HOUSE AUDITING

Apart from the audit conducted by corporate auditors under the Companies Act, the Audit division conducts in-house audits.

The purpose of an in-house audit is to develop and establish an internal control system. This is done by conducting an audit to examine and evaluate the execution of plans and activities in the Company fairly and objectively, and from the standpoint of lawfulness and rationality. It also requires providing the necessary advice and recommendations based on the evaluation, contributing to the sound development of the company and building credibility in the community.



In fiscal 2011, we decided based on the “In-House Audit Policy and Plan” adopted by resolution of the Board of Directors to focus on audits of responses to the revision of the insurance inspection manual and to conduct regular audits of the internal control conditions of all divisions. Audit results including recommendations of corrections and improvements are reported to the Board of Managing Directors and the Board of Directors and communicated to audited divisions.

## **RISK MANAGEMENT SYSTEM**

The construction of an appropriate risk management system is an important issue to ensure the safety and soundness of management, as surrounding risks are becoming increasingly complicated and diversified. We have been endeavoring to accurately understand and appropriately manage risks by establishing a comprehensive risk control committee to supervise risk management. We have also set forth management methods for various risks facing the Company in the Risk Management Policy and monitor how risks are managed. In addition, we work to improve risk management by introducing comprehensive risk management to enhance the quantitative and qualitative methods of risk analysis and management.

### **ASSETS MANAGEMENT RISKS**

Risk management relating to asset management is carried out primarily for paying reinsurance claims promptly and with certainty when there are major earthquakes.

These risks are classified into “market risks” and “credit risks” for the management, and the management standards are stipulated in the “Standards for Management of Investment Risks” for each fiscal year.

#### *Market risks*

Market risks include interest-rate risk, exchange risk, and price volatility risk. These are the risks of losses that investors may sustained with fluctuations in the value of financial assets or debt position due to market trends.

We manage overall market risks both quantitatively and qualitatively. We measure the value at risk (VaR) of interest rates and currency exchanges as the amount of risks, while also monitoring the unrealized gain/loss and price changes (responsiveness). We also apply an upper limit of retention or a loss-cut rule as necessary.

We also have separate divisions for executing transactions and for doing paperwork, respectively, thereby enabling the supervisory and checking functions to work.

#### *Credit risks*

Credit risks are the risks of a reduction in value or the disappearance of assets, which results when the credit standing of the borrower has weakened, for example.

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. We also measure the credit VaR based on the default rate, etc. for managing credit risks.



## LIQUIDITY RISKS

Liquidity risks are the risks of losses that may be caused by failure to ensure the liquidity of assets against debt or by being forced to execute transactions at a disadvantageous price due to market turmoil, etc. These risks are important in fulfilling our social mission. We own sufficient liquid assets by keeping in mind the possibility of having to dispose of all assets in the event of a major earthquake. We also strive to accurately assess cash flows, thereby managing funds appropriately.

## OPERATIONAL RISKS

Operational risks are classified into “paperwork issues,” “system risk,” and “other risks,” and we manage these risks as appropriate given the characteristics of each.

### *Paperwork issues*

Paperwork issues are the risks of losses that may be caused by the failure of officers, employees, or any other members of an organization to do accurate paperwork, or by accidents, fraud, or any other improper acts. We constantly examine the rules and regulations of authority and paperwork procedures and manuals and strive to improve our training programs and educational system, to ensure exact and perfect paperwork. We also regularly check the rules and regulations through in-house auditing for conformity with related laws and regulations.

### *System risks*

System risks are risks of losses that may be caused by system problems such as computer system failures or glitches or by unauthorized use of a computer.

We strive to protect our information assets appropriately under our Security Policy and Safety Measure Standards, which we established for preventing leaks of internal information, etc., and as safety measures for our information system. In addition, we have clarified our measures for handling crises by developing the Information System Contingency Plan for disasters and other emergency situations.

### *Other risks*

As operational risks other than paperwork issues and system risks, we are aware of such risks as “human risks” (the risks of losses that may be caused by outflows or losses of human resources) and “rumor risks.” We strive to manage these risks with each responsible division playing the leading role.

\* Underwriting risks are excluded because they are guaranteed under the earthquake insurance 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 fiscal 2010, the Japanese economy struggled with a difficult employment situation, the rapid appreciation of the yen, and other factors, which offset the effects of government fiscal stimulus and rising demand in emerging countries. In addition, the Great East Japan Earthquake in March seriously affected the Japanese economy, causing a significant reduction in production activities, for example.

The number of earthquake insurance contracts increased during the year under review, as they did in the previous year. Premiums written also rose from the previous year, backed by factors such as a growing interest in earthquake insurance. The number and amount of earthquake insurance payouts declined from the previous year, despite insurance payouts for the Surugawan Earthquake in 2009. For the Great East Japan Earthquake that took place in March, there was no payment of earthquake reinsurance claims for the fiscal year under review, so we posted a reserve for outstanding claims.

Profits from investments increased from the previous year, reflecting an increase in investment assets, which offset the decline of interest rates in the first half of the fiscal year and the rapid appreciation of the yen in the second half. After the Great East Japan Earthquake, we sold securities to prepare for payment of reinsurance claims.

Administrative expenses remained flat from the previous year as a result of a commitment to achieve efficient business operations and cut costs as operations expanded.

The fiscal year under review was the second year of our second three-year medium-term business plan. During the year, we played an active role in enhancing and developing the earthquake insurance system and took action to ensure that we achieved the plan, such as refining our expertise in earthquake insurance operations, bolstering our asset management and risk management, and improving our business continuity plan, aiming to develop into a company that will be even more reliable and trustworthy for our stakeholders.

### (1) Summary of earthquake insurance results

#### a. Premiums written and insurance claims paid

Net premiums written amounted to 71.5 billion yen (down 1.0% year on year), reflecting an increase in the reinsurance premiums paid to direct insurance companies and the government, which exceeded the increase in the number of insurance contracts and premiums written. Insurance claims paid came to 1 billion yen (down 81.4% year on year) due in part to the Surugawan Earthquake in 2009.

#### b. Risk reserves and underwriting reserves

Risk reserves added amounted to 43.3 billion yen (up 2.0% year on year), the total of net premiums written of 37.2 billion yen, given by deducting assumed insurance commissions from net premiums written, and a profit of 6 billion yen from investments.

Risk reserves at the end of the fiscal year under review were 424.4 billion yen (down 14.6% year on year), reflecting the drawing from risk reserves in the past year following the payment of ongoing insurance claims of 1 billion yen, the provision of outstanding claims of 114.4 billion yen, as well as advertising and publicity expenses of 0.1 billion yen.

Underwriting reserves at the end of the fiscal year under review totaled 515.9 billion yen (down 11.9% year on year) after adding unearned premium reserves and refunded reserves to the risk reserves.

#### c. Risk reserves of direct insurance companies

Risk reserves of direct insurance companies recorded as entrusted reserves were 489.1 billion yen for the fiscal year under review (down 6.7% year on year), obtained by adding net premiums written and profit from investments of 28.6 billion yen (up 2.6% year on year), and drawing a provision of outstanding claims of 63 billion yen and advertising and publicity expenses of 0.5 billion yen.

### (2) Outline of investments

Medium- to long-term domestic interest rates declined significantly in the first half of the fiscal year, due in part to the slow recovery of the Japanese economy and the decline in interest rates in Europe and the United States, which is attributable to the increasingly serious sovereign debt problems in Europe. The interest rates subsequently began to rise given global expectations of an economic recovery. At the end of the fiscal year under review, however, the interest rates were slightly lower than the levels at the end of the previous fiscal year, due in part to the impact of the Great East Japan Earthquake.

The yen appreciated sharply against both the dollar and euro. It remained strong against the dollar due to further monetary easing by the Federal Reserve Board and against the euro because of the increasingly serious sovereign debt problems in Europe. Consequently, compared with a year ago, the yen had appreciated about ten yen against the dollar and about seven yen against the euro at the end of the fiscal 2010.

In the circumstances, we invested in assets with the top priority placed on security and liquidity, followed by profitability. As a result, pre-tax profits from investments amounted to 7.1 billion yen in the business account and 5.4 billion yen in the entrusted reserves account. Consequently, investment assets at the end of the year under review stood at 1,135.2 billion yen.

To prepare for the payment of reinsurance claims resulting from the Great East Japan Earthquake, we have secured abundant funding by selling securities.

### (3) Profit and loss for the fiscal year under review

Net income was 3 million yen after calculating interest and dividend income to capital account and other items.

## INDICATORS SHOWING THE MAIN RESULTS OVER THE LAST FIVE FISCAL YEARS

(Unit: Million yen)

Division	Fiscal Year				
	2006	2007	2008	2009	2010
Net premiums written (percentage change over the previous term)	67,981 (△4.4%)	64,040 (△5.8%)	67,126 (4.8%)	72,225 (7.6%)	71,532 (△1.0%)
Ordinary incomes (percentage change over the previous term)	90,373 (△16.2%)	81,290 (△10.1%)	84,993 (4.6%)	99,464 (17.0%)	175,903 (76.9%)
Ordinary expenses (percentage change over the previous term)	90,229 (△16.3%)	81,273 (△9.9%)	84,792 (4.3%)	98,512 (16.2%)	174,913 (77.6%)
Ordinary profit (percentage change over the previous term)	143 (521.1%)	16 (△88.5%)	200 (1,108.8%)	951 (374.2%)	990 (4.1%)
Net income (percentage change over the previous term)	△16 (△146.4%)	4 (-)	12 (184.1%)	5 (△58.9%)	3 (△30.2%)
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	1,600	1,614	1,617	1,633	1,634
Total assets	908,963	955,968	1,015,053	1,092,272	1,154,108
Underwriting reserves (percentage change over the previous term)	490,901 (8.9%)	515,586 (5.0%)	545,255 (5.8%)	585,820 (7.4%)	515,981 (△11.9%)
of the balance, risk reserve balance (percentage change over the previous term)	412,364 (8.9%)	433,841 (5.2%)	460,081 (6.0%)	496,708 (8.0%)	424,401 (△14.6%)
Loans (percentage change over the previous term)	- (-)	- (-)	- (-)	- (-)	- (-)
Securities (percentage change over the previous term)	851,739 (10.4%)	895,513 (5.1%)	953,118 (6.4%)	1,006,947 (5.6%)	805,223 (△20.0%)
Solvency-margin ratio	175.3%	185.4%	159.1%	161.6%	124.7%
Dividend propensity	-%	-%	-%	-%	-%
No. of employees	21	24	28	26	25

**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.

## INDICATORS SHOWING RESULTS FOR THE LAST THREE FISCAL YEARS

Item: earthquake

### ① Indicators relating to insurance underwriting

#### 1. Net premiums written

(Unit: Million yen)

Division	Fiscal Year		
	2008	2009	2010
Premiums written	145,445	151,353	152,182
Return premiums	3,241	2,464	2,324
Assumed net premiums written (A)	141,271	148,349	149,634
Reinsurance premiums ceded (B)	74,145	76,123	78,102
Net premiums written (A-B)	67,126	72,225	71,532

**Notes:**

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

#### 2. Underwriting profit

(Unit: Million yen)

Division	Fiscal Year		
	2008	2009	2010
Underwriting incomes	70,546	79,278	148,490
Underwriting expenses	69,884	77,828	147,002
Operating and general administrative expenses	474	509	503
Other incomes and expenses	△187	△941	△984
Underwriting profit	-	-	-

**Notes:**

- 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.
- Other incomes and expenses are those equivalent to corporate taxes mentioned in a statement of earthquake insurance profits and losses.

### 3. Net claims paid

(Unit: Million yen)

Division	Fiscal Year	2008	2009	2010
Assumed net claim paid (A)		9,350	5,544	1,033
Reinsurance claims recovered (B)		-	-	-
Net claims paid (A-B)		9,350	5,544	1,033

#### Notes:

1. Assumed net claims paid: Produced by deducting surrender value from ceded insurance claim paid.
2. Net claims paid: Produced by deducting reinsurance claims recovered by ceded contract from assumed net claims paid.

### 4. Loss ratio, net expense ratio and their combined ratio

(Unit: Million yen)

Division	Fiscal Year	2008	2009	2010
Loss ratio		16.0%	8.6%	1.8%
Underwriting expenses		29,897	31,381	31,740
Insurance related operating, general and administrative expenses		(474)	(509)	(503)
Agency commissions and brokerage fees		(29,423)	(30,872)	(31,236)
Net expense ratio		44.5%	43.4%	44.4%
Combined ratio		60.5%	52.0%	46.2%

#### Notes:

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

### 5. Rate of premiums written by domestic and overseas contracts

Division	Fiscal Year	2008	2009	2010
Domestic contract		100%	100%	100%

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

	2008	2009	2010
No. of reinsurers that ceded insurance contracts	17	17	15
Rate of top five reinsurers' ceded insurance premiums	77.5%	77.5%	81.9%

#### 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.

## ② Indicators relating to accounting

### 1. Amounts of outstanding claims and underwriting reserves

(Unit: Million yen)

Division	Year	As of the end of fiscal 2008	As of the end of fiscal 2009	As of the end of fiscal 2010
Outstanding claims		228	420	114,918
Underwriting reserves		545,255	585,820	515,981
(Risk reserve)		(460,081)	(496,708)	(424,401)
(Unearned premium reserve)		(83,366)	(87,453)	(90,054)
(Repayment reserve)		(1,808)	(1,659)	(1,524)
Total		545,484	586,241	630,899

### 2. Detailed listing of liability reserves

#### As of the end of Fiscal 2009

(Unit: Million yen)

Division	Balance as of the end of fiscal 2008	Amount of increase in fiscal 2009	Amount of decrease in fiscal 2009	Balance as of the end of fiscal 2009
Reserve for ordinary bad debts	-	-	-	-
Reserve for individual bad debts	-	-	-	-
Reserve for specific foreign securities	-	-	-	-
Accrued severance benefits	102	21	13	110
Reserve for directors' retirement allowances	9	4	0	13
Reserve for bonus payment	19	18	19	18
Reserve for price fluctuation	7	-	0	7
Total	139	44	34	150

#### As of the end of Fiscal 2010

(Unit: Million yen)

Division	Balance as of the end of fiscal 2009	Amount of increase in fiscal 2010	Amount of decrease in fiscal 2010	Balance as of the end of fiscal 2010
Reserve for ordinary bad debts	-	-	-	-
Reserve for individual bad debts	-	-	-	-
Reserve for specific foreign securities	-	-	-	-
Accrued severance benefits	110	20	28	102
Reserve for directors' retirement allowances	13	4	2	15
Reserve for bonus payment	18	17	18	17
Reserve for price fluctuation	7	-	1	5
Total	150	42	50	141

### 3. Detailed listing of shareholders' equity

#### As of the end of Fiscal 2009

(Unit: Million yen)

Division	Balance as of the end of fiscal 2008	Amount of increase in fiscal 2009	Amount of decrease in fiscal 2009	Balance as of the end of fiscal 2009
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 of retained earnings and voluntary reserves				
Legal reserve of retained earnings	1	-	-	1
Voluntary reserves				
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 2009.

#### As of the end of Fiscal 2010

(Unit: Million yen)

Division	Balance as of the end of fiscal 2009	Amount of increase in fiscal 2010	Amount of decrease in fiscal 2010	Balance as of the end of fiscal 2010
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 of retained earnings and voluntary reserves				
Legal reserve of retained earnings	1	-	-	1
Voluntary reserves				
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 2010.

### 4. Business expenses (inclusive of loss adjustment)

(Unit: Million yen)

Division	Fiscal Year	2008	2009	2010
Personnel expenses		474	378	350
Non personnel expenses		1,673	1,085	702
Taxes		185	197	196
Agency commissions and brokerage fees		29,423	30,872	31,236
Total		31,757	32,534	32,485

**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	2008	2009	2010
Government bonds		27	7	1,092
Foreign securities		-	574	408
Total		27	582	1,501

### 6. Loss on sale of securities by category

(Unit: Million yen)

Division	Fiscal Year	2008	2009	2010
Government bonds		6	329	920
Foreign securities		-	232	638
Total		6	562	1,558

### 7. Securities appraisal loss by category

Nothing is to be mentioned.

### 8. Depreciation expenses by category

#### As of the end of Fiscal 2009

(Unit: Million yen)

Type of asset	Acquisition cost	Amount of depreciation in fiscal 2009	Aggregated depreciations	Balance as the end of fiscal 2009	Rate of aggregated depreciations %
Tangible fixed assets					
Buildings	101	2	61	40	60.0
(for underwriting)	(101)	(2)	(61)	(40)	(60.0)
(for investment)	(-)	(-)	(-)	(-)	(-)
Others	95	20	68	26	72.2
Total	196	23	129	67	65.9
Intangible fixed assets					
Software	409	60	75	334	18.4
Other intangible fixed assets	0	0	0	0	86.9
Total	410	60	75	334	18.4
Grand total	607	83	205	401	33.8

#### As of the end of Fiscal 2010

(Unit: Million yen)

Type of asset	Acquisition cost	Amount of depreciation in fiscal 2010	Aggregated depreciations	Balance as the end of fiscal 2010	Rate of aggregated depreciations %
Tangible fixed assets					
Buildings	101	2	63	37	62.7
(for underwriting)	(101)	(2)	(63)	(37)	(62.7)
(for investment)	(-)	(-)	(-)	(-)	(-)
Others	94	11	80	14	84.6
Total	196	14	143	52	73.4
Intangible fixed assets					
Software	407	81	153	253	37.8
Other intangible fixed assets	0	0	0	0	91.9
Total	407	81	154	253	37.9
Grand total	603	96	298	305	49.4



## 9. Loss from disposal of fixed assets

(Unit: Million yen)

Division	Fiscal Year	2008	2009	2010
Land		-	-	-
Buildings		-	0	-
Other tangible fixed assets		0	-	-
Total		0	0	-

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.

### ③ Special deposit premium account

Nothing is to be mentioned.

### ④ 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.

### ⑤ The amount of estimated final damages associated with the elapse of a period from the occurrence of accidents does not apply to earthquake insurance.

## ⑥ 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

### Deposits

(Unit: Million yen)

Division	Year	As of the end of fiscal 2008	As of the end of fiscal 2009	As of the end of fiscal 2010
Deposits		24,275	22,352	10,409
(Ordinary deposit)		(1,475)	(2,052)	(2,909)
(Time deposit)		(22,800)	(20,300)	(7,500)

### Total assets and investments assets

(Unit: Million yen)

Division	Fiscal Year	2008	2009	2010			
		Percentage distribution (%)	Percentage distribution (%)	Percentage distribution (%)			
Deposits		24,275	2.4	22,352	2.0	10,409	0.9
Call loans		8,819	0.9	28,254	2.6	319,586	27.7
Monetary receivable bought		-	-	-	-	-	-
Money trusts		13,495	1.3	13,692	1.3	-	-
Securities		953,118	93.9	1,006,947	92.2	805,223	69.8
Buildings		41	0.0	40	0.0	37	0.0
Total of investments assets		999,749	98.5	1,071,286	98.1	1,135,256	98.4
Total assets		1,015,053	100.0	1,092,272	100.0	1,154,108	100.0

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

(Unit: Million yen)

Division	Fiscal Year	2008	2009	2010			
		Yield (%)	Yield (%)	Yield (%)			
Deposits		236	0.76	219	0.61	169	0.45
Call loans		27	0.29	11	0.07	20	0.06
Monetary receivables bought		3	0.87	-	-	-	-
Money trusts		91	0.66	86	0.63	50	0.40
Securities		13,956	1.52	16,991	1.76	15,734	1.55
Buildings		-	-	-	-	-	-
Total		14,315	1.47	17,309	1.67	15,975	1.46

#### Note:

*Investment assets yield (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. Assets management yield (realized yield)

(Unit: Million yen)

Division	Fiscal Year	2009			2010		
		Amount of numerator	Amount of denominator	Yield on working assets (%)	Amount of numerator	Amount of denominator	Yield on working assets (%)
Deposits		219	35,819	0.61	169	37,412	0.45
Call loans		11	16,691	0.07	20	35,101	0.06
Monetary receivables bought		-	-	-	-	-	-
Money trusts		△72	13,750	△0.52	△218	12,604	△1.73
Securities		17,011	967,658	1.76	15,676	1,011,852	1.55
Public and corporate bonds		5,372	542,992	0.99	6,121	589,258	1.04
Stocks		-	-	-	-	-	-
Foreign securities		11,968	415,507	2.88	9,898	419,477	2.36
Other securities		△329	9,158	△3.6	△343	3,116	△11.01
Loans		-	-	-	-	-	-
Buildings		-	42	-	-	40	-
Financial derivative		9,326	-	-	17,035	-	-
Others		△13,617	-	-	△19,572	-	-
Total		12,879	1,033,962	1.25	13,112	1,097,011	1.20

##### Notes:

1. 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

2. Profit and loss from financial derivatives principally involve foreign exchange forward contracts with the remainder primarily involving currency exchange of foreign currency-denominated bonds. JER deals in foreign exchange forward contracts and other transactions for the purpose of hedging risks associated with foreign currency-denominated bonds.

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

(Unit: Million yen)

Division	Fiscal Year	2009			2010		
		Amount of numerator	Amount of denominator	Yield on working assets (%)	Amount of numerator	Amount of denominator	Yield on working assets (%)
Deposits		219	35,819	0.61	169	37,412	0.45
Call loans		11	16,691	0.07	20	35,101	0.06
Monetary receivables bought		-	-	-	-	-	-
Money trusts		124	13,495	0.92	△160	12,546	△1.28
Securities		29,921	970,987	3.08	7,870	1,028,090	0.77
Public and corporate bonds		8,113	546,170	1.49	3,563	595,176	0.60
Stocks		-	-	-	-	-	-
Foreign securities		22,047	416,011	5.30	4,385	430,061	1.02
Other securities		△240	8,805	△2.73	△78	2,852	△2.77
Loans		-	-	-	-	-	-
Buildings		-	42	-	-	40	-
Financial derivative		9,326	-	-	17,035	-	-
Others		△13,617	-	-	△19,572	-	-
Total		25,986	1,037,036	2.51	5,364	1,113,191	0.48

##### Notes:

1. 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

2. Profit and loss from financial derivatives principally involve foreign exchange forward contracts with the remainder primarily involving currency exchange of foreign currency-denominated bonds. JER deals in foreign exchange forward contracts and other transactions for the purpose of hedging risks associated with foreign currency-denominated bonds.

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

(Unit: Million yen)

Division	Year	As of the end of fiscal 2008		As of the end of fiscal 2009		As of the end of fiscal 2010	
		Percentage distribution (%)	Percentage distribution (%)	Percentage distribution (%)	Percentage distribution (%)		
Foreign currency denominated							
Foreign public and corporate bonds		221,324	60.0	270,894	63.6	152,723	48.4
Yen denominated							
Foreign public and corporate bonds		147,827	40.0	154,918	36.4	162,901	51.6
Total		369,151	100.0	425,813	100.0	315,624	100.0
Yield on foreign loans & investment							
Investment assets yield (income yield)		2.81%	2.80%	2.41%			
Assets management (realized yield)		2.81%	2.88%	2.36%			
Market-price based overall yield (for reference)		2.97%	5.30%	1.02%			

##### Note:

Of the yield on foreign loans & investments, the investment assets 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.

#### 7. Balance of securities by category and percentage distribution

(Unit: Million yen)

Division	Year	As of the end of fiscal 2008		As of the end of fiscal 2009		As of the end of fiscal 2010	
		Percentage distribution (%)	Percentage distribution (%)	Percentage distribution (%)	Percentage distribution (%)		
Government bonds		412,278	43.3	457,324	45.4	414,095	51.4
Municipal bonds		2,581	0.3	80	0.0	-	-
Corporate bonds		159,650	16.8	120,593	12.0	75,503	9.4
Stocks		-	-	-	-	-	-
Foreign securities		369,151	38.7	425,813	42.3	315,624	39.2
Other securities		9,456	1.0	3,135	0.3	-	-
Loan receivable in securities		-	-	-	-	-	-
Total		953,118	100.0	1,006,947	100.0	805,223	100.0

## 8. Yield on securities held

(Unit: %)

Division	Fiscal Year		
	2008	2009	2010
Investment assets yield (income yield)			
Public & corporate bonds	0.94	0.99	0.95
Stocks	-	-	-
Foreign securities	2.81	2.80	2.41
Other securities	0.24	-	-
Total	1.52	1.76	1.55
Assets management yield (realized yield)			
Public & corporate bond	0.94	0.99	1.04
Stocks	-	-	-
Foreign securities	2.81	2.88	2.36
Other securities	0.24	△3.60	△11.01
Total	1.52	1.76	1.55
Market-price based overall yield (for reference)			
Public & Corporate bonds	1.14	1.49	0.60
Stocks	-	-	-
Foreign securities	2.97	5.30	1.02
Other securities	△1.84	△2.73	△2.77
Total	1.69	3.08	0.77

## 9. Balance Current Maturity of securities by category

As of the end of fiscal 2009

(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	139,800	225,477	36,389	6,344	36,734	12,577	457,324	
Municipal bonds	80	-	-	-	-	-	80	
Corporate bonds	44,528	54,001	20,437	104	1,521	-	120,593	
Stocks	-	-	-	-	-	-	-	
Foreign securities	54,596	219,828	115,466	23,655	12,267	-	425,813	
Other securities	-	-	-	-	-	3,135	3,135	
Loan receivable in securities	-	-	-	-	-	-	-	
Total	239,005	499,307	172,293	30,104	50,523	15,712	1,006,947	

As of the end of fiscal 2010

(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	196,002	128,689	41,261	5,614	40,503	2,024	414,095	
Municipal bonds	-	-	-	-	-	-	-	
Corporate bonds	29,698	43,870	415	1,518	-	-	75,503	
Stocks	-	-	-	-	-	-	-	
Foreign securities	72,255	151,415	59,386	20,300	12,266	-	315,624	
Other securities	-	-	-	-	-	-	-	
Loan receivable in securities	-	-	-	-	-	-	-	
Total	297,957	323,974	101,063	27,433	52,769	2,024	805,223	

## 10. Tangible fixed assets by breakdown

(Unit: Million yen)

Division	Year		
	As of the end of fiscal 2008	As of the end of fiscal 2009	As of the end of fiscal 2010
Land	-	-	-
(for underwriting)	(-)	(-)	(-)
(for investment)	(-)	(-)	(-)
Buildings	41	40	37
(for underwriting)	(41)	(40)	(37)
(for investment)	(-)	(-)	(-)
Construction in progress	-	-	-
(for underwriting)	(-)	(-)	(-)
(for investment)	(-)	(-)	(-)
Total of property	41	40	37
(for underwriting)	(41)	(40)	(37)
(for investment)	(-)	(-)	(-)
Other tangible fixed assets	37	26	14
Total	79	67	52

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)			
	2009		2010	
	(As of March 31, 2010)		(As of March 31, 2011)	
Fiscal Year	Amount	Percentage distribution	Amount	Percentage distribution
Cash & deposits	22,352	2.0	10,409	0.9
Deposits	22,352		10,409	
Call loans	28,254	2.6	319,586	27.7
Money trusts	13,692	1.3	–	
Securities	1,006,947	92.2	805,223	69.8
Government bonds	457,324		414,095	
Municipal bonds	80		–	
Corporate bonds	120,593		75,503	
Foreign securities	425,813		315,624	
Other securities	3,135		–	
Tangible fixed assets	67	0.0	52	0.0
Buildings	40		37	
Other tangible fixed assets	26		14	
Intangible fixed assets	334	0.0	253	0.0
Software	334		253	
Other intangible fixed assets	0		0	
Other assets	20,547	1.9	18,512	1.6
Reinsurance balance receivable	8,628		8,416	
Accounts receivable	7		3,720	
Uncollected income	5,265		3,662	
Deposits	54		52	
Suspense payment	119		73	
Financial derivative	6,472		2,466	
Other assets	–		119	
Deferred tax assets	76	0.0	71	0.0
<b>Total assets</b>	<b>1,092,272</b>	<b>100.0</b>	<b>1,154,108</b>	<b>100.0</b>

#### (LIABILITIES)

Item	(Unit: Million yen)			
	2009		2010	
	(As of March 31, 2010)		(As of March 31, 2011)	
Fiscal Year	Amount	Percentage distribution	Amount	Percentage distribution
Underwriting funds	586,241	53.7	630,899	54.7
Outstanding claims	420		114,918	
Underwriting reserves	585,820		515,981	
Entrusted reserves	473,207	43.3	500,250	43.3
Other liabilities	14,885	1.4	12,772	1.1
Reinsurance balance payable	5,507		5,632	
Corporate taxes payable	952		601	
Deposits payable	2		3	
Accrued amounts payable	1,144		999	
Financial derivative	7,278		5,535	
Accrued severance benefits	110	0.0	102	0.0
Reserves for directors' retirement benefit	13	0.0	15	0.0
Reserves for bonus payment	18	0.0	17	0.0
Reserves under the special law	7	0.0	5	0.0
Price fluctuation reserves	7		5	
Net unrealized gains on available-for-sale securities of earthquake insurance	16,154	1.5	8,410	0.7
<b>Total liabilities</b>	<b>1,090,639</b>	<b>99.9</b>	<b>1,152,474</b>	<b>99.9</b>

#### (NET ASSETS)

Item	(Unit: Million yen)			
	2009		2010	
	(As of March 31, 2010)		(As of March 31, 2011)	
Fiscal Year	Amount	Percentage distribution	Amount	Percentage distribution
Common stock	1,000	0.1	1,000	0.1
Retained earnings	622	0.1	625	0.1
Legal reserve of retained earnings	1		1	
Other legal reserve of retained earnings	621		624	
Special reserves	17		17	
Special price fluctuation reserves	39		39	
Retained earnings brought forward	564		568	
Treasury Stock	△5	△0.0	△5	△0.0
<b>Total shareholders' equity</b>	<b>1,616</b>	<b>0.2</b>	<b>1,620</b>	<b>0.1</b>
Net unrealized gain on available-for-sale securities	16	0.0	14	0.0
Total valuation and translation adjustments	16	0.0	14	0.0
<b>Total net assets</b>	<b>1,633</b>	<b>0.1</b>	<b>1,634</b>	<b>0.1</b>
<b>Total liabilities and net assets</b>	<b>1,092,272</b>	<b>100.0</b>	<b>1,154,108</b>	<b>100.0</b>

1. Appraisal standards and method of securities, and method of indication
  - (1) Of available-for-sale securities, those to which the market price is applicable is appraised according to the market price at term end.
  - (2) Of available-for-sale 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 trusts
  - (1) In money trusts exclusively operated centering on securities, the appraisal of securities operated as trust assets is done on the basis of market price.
  - (2) In money trusts 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. Although depreciation of tangible fixed assets is calculated using the declining balance method, buildings (excluding equipment attached to buildings) that were acquired on and after April 1, 1998 were depreciated using the straight-line method.
5. Software for in-house use that is recorded as an intangible fixed asset is amortized using the straight-line method over the usable life (five years).
6. The conversion of foreign currency assets and liabilities into Japanese currency is processed according to the accounting standards for foreign currency transactions.
7. 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.

8. Financial instruments and fair values of financial instruments

(1) Situation of financial instruments

The Company carries out asset management in preparation for the payment of reinsurance claims, primarily considering soundness, namely, low price fluctuation risks, credit risks, and liquidity risks, and also taking profitability into account. As a result, the financial assets that the Company owns consist primarily of domestic and foreign, high-rated, medium-term bonds. The Company regularly obtains and manages information on fair values and credit information in association with each risk.

Trading in derivatives principally involves foreign exchange forward contracts used to hedge the risks arising from possible changes in exchange rates for bonds in foreign currencies and is kept within the scope of actual demand.

(2) Fair values of financial instruments

The table below shows the balance sheet amounts and fair values of financial instruments and the differences between them as of March 31, 2011.

(Unit: Million yen)			
	Balance sheet amount	Fair value	Difference
(i) Call loans	319,586	319,586	-
(ii) Securities Available-for-sale securities	805,223	805,223	-
(iii) Derivatives*	(3,068)	(3,068)	-

\* Derivatives recorded in other assets and other liabilities. Net receivables or net payables generated from derivatives trading are shown. Figures in parentheses are net payables.

**Note: Methods for calculating the fair values of financial instruments**

- (i) Call loans  
Call loans are settled in the short term, and their fair values are therefore deemed equal to their carrying values.
- (ii) Securities  
In principle, the fair values of securities are based on their market prices, which are reference prices in the trading statistics of the Japan Securities Dealers Association or market prices obtained from outside vendors or brokers.
- (iii) Derivatives  
The fair values of derivatives are determined by prices offered by correspondent financial institutions.

9. 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.

10. The risk reserves contained in the underwriting reserves have been deposited based on instructions for the calculation of liability reserves by accumulating the amounts that result from subtracting an amount equivalent to corporate taxes from the net premiums written and profit from operating the assets.

11. For finance leases commencing before April 1 2008, other than those in which the ownership rights of the leased property are deemed to transfer to the lessee, an accounting method similar to that used for ordinary rental transactions is used.

12. The accumulated depreciation of tangible fixed assets is 143 million yen.

13. Total deferred tax assets amount to 85 million yen, while total deferred tax liabilities come to 7 million yen. The amount deducted from deferred tax assets as a valuation reserve is 5 million yen. The breakdown of deferred tax assets reveals unpaid business taxes of 19 million yen, unpaid special local corporate tax of 14 million yen, a retirement benefit reserve of 37 million yen and a bonus reserve of 6 million yen. The deferred tax liabilities result primarily from an unrealized gain of 7 million yen on securities.

14. Net assets per share are 821.81 yen. The basis for this calculation is that net assets are 1,634 million yen, net assets accrued from ordinary shares are 1,634 million yen and the number of ordinary shares at the end of the term is 1,988 million.

15. Changes in the method of accounting

In the accounting period under review, JER began to apply the Accounting Standards for Asset Retirement Obligations (ASBJ Statement No. 18 of March 31, 2008) and the Guidance on Accounting Standards for Asset Retirement Obligations (ASBJ Guidance No. 21 of March. 31, 2008).

These changes do not have any influence on the results.

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

## ② Statements of income

(Unit: Million yen)

Item	Fiscal Year	
	2009 (from April 1, 2009 to March 31, 2010)	2010 (from April 1, 2010 to March 31, 2011)
	Amount	Amount
Ordinary income	99,464	175,903
Underwriting income	79,278	148,490
Net premiums written	72,225	71,532
Investment income on savings premiums	7,052	7,118
Reversal of underwriting reserves	–	69,839
Investment income	20,186	27,413
Interest and dividend income	17,222	15,924
Profit from operating monetary trust	86	50
Realized gain on sale of securities	582	1,501
Financial derivative gain	9,326	17,035
Profit from other operations	21	19
Transfer of profit from Investment income on savings premiums	△7,052	△7,118
Other ordinary income	0	0
Ordinary expenses	98,512	174,913
Underwriting expenses	77,828	147,002
Net claims paid	5,544	1,033
Loss adjustment expenses	653	235
Agency commissions and brokerage fees	30,872	31,236
Provision for outstanding claims	192	114,497
Provision for underwriting reserves	40,565	–
Investment expenses	14,359	21,419
Loss from operating monetary trust	158	268
Realized loss on sale of securities	562	1,558
Foreign exchange loss	13,550	19,523
Other operation cost	88	68
Operating, general and administrative expenses	1,007	1,013
Other ordinary expenses	5,317	5,477
Interest paid	5,317	5,477
Ordinary profit	951	990
Extraordinary incomes	0	1
Reversal of price fluctuation reserves	0	1
Extraordinary losses	0	–
Loss on disposal fixed assets	0	–
Income before taxes	951	992
Income taxes – current	950	982
Income taxes – deferred	△4	6
Total income taxes	946	988
Net income	5	3

## Notes for fiscal 2010

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

Premiums written:	149,634 (million yen)
Reinsurance premiums ceded:	78,102 (million yen)
Net premiums written:	71,532 (million yen)

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

Interest on deposits:	169 (million yen)
Call loans:	20 (million yen)
Interest on securities:	15,734 (million yen)
Total:	15,924 (million yen)

3. Paper profit/loss involved in the financial derivative expenses is a loss of 3,068 million yen.

4. The net income per share is 1.80 yen.

The basis for this calculation is such that the net income is 3 million yen, the net income accrued from ordinary shares is 3 million yen and the term average No. of ordinary shares amount to 1,988 million.

5. The legal effective tax rate at the end of the term is 36.21%, and the corporate tax burden after applying the tax effect is 99.64%. The difference is explained by the following breakdown: the non-deductible amount of the taxable provision of risk reserves is 67.70%, the amount of the write-off carried from publicity expenses related to risk reserves is △4.43%.

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

### ③ Statements of cash flow

(Unit: Million yen)

Item	Fiscal Year	
	2009 (from April 1, 2009 to March 31, 2010)	2010 (from April 1, 2010 to March 31, 2011)
	Amount	Amount
<b>Cash flow from operating activities</b>		
Net income before income taxes (△ denotes a loss)	951	992
Depreciation	83	96
Changes in outstanding claims (△ denotes a decline)	192	114,497
Changes in underwriting reserves (△ denotes a decline)	40,565	△69,839
Changes in entrusted reserves (△ denotes a decline)	26,320	27,043
Changes in reserves for employees' retirement and severance benefits (△ denotes a decline)	7	△7
Changes in directors' retirement benefit reserves (△ denotes a decline)	4	2
Changes in accrued bonuses for employees (△ denotes a decline)	△1	△1
Changes in reserve for price fluctuation (△ denotes a decline)	△0	△1
Interest and dividend income	△17,222	△15,924
Gain or loss on investment in securities (△ denotes a gain)	△19	57
Foreign exchange gain or loss (△ denotes a gain)	5,360	666
Gain or loss on tangible fixed assets (△ denotes a gain)	0	-
Increase in other assets (other than investment and financial activities related) (△ denotes an increase)	△120	△3,453
Increase in other liabilities (other than investment and financial activities related) (△ denotes a decline)	610	△18
Others	△8,446	2,255
Subtotal	48,285	56,363
Interest and dividends received	15,664	17,526
Income taxes paid	△298	△1,326
Net cash provided by operating activities	63,651	72,562
<b>Cash flow from investing activities</b>		
Net increase in deposits at bank (△ denotes an increase)	2,500	12,800
Proceeds from Decrease in Money Held in Trust	-	13,750
Purchase of securities	△275,224	△443,199
Proceeds from sales and redemption of securities	229,340	636,394
Others	-	△119
Total investment assets activities	△43,383	△219,626
(Total operating activities and investment assets activities)	(20,267)	(292,189)
Acquisition of tangible fixed assets	△11	-
Others	△243	-
Net cash provided by investing activities	△43,639	219,626
<b>Cash flow in financing activities</b>		
Effect of exchange rate changes on cash and cash equivalents	-	-
Net change in cash and equivalents	20,012	292,189
Cash and cash equivalents at the begin- ning of the year	10,294	30,306
Cash and cash equivalents at the end of the year	30,306	322,495

#### Note:

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)	
	(As of March 31, 2010)	(As of March 31, 2011)
Cash & deposits	22,352	10,409
Call loans	28,254	319,586
Securities	1,006,947	805,223
Deposits of a depository period of three months or longer	△20,300	△7,500
Securities other than cash equivalent	△1,006,947	△805,223
Cash and cash equivalents	30,306	322,495

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



#### 4 Statement of Changes in Shareholders' Equity

Item	Fiscal Year	2009	2010
		(from April 1, 2009 to March 31, 2010) Amount	(from April 1, 2010 to March 31, 2011) Amount
<b>Share holder's equity</b>			
<b>Common stock</b>			
Balance at the end of the previous year		1,000	1,000
Amount of change during the term			
Issuance of new shares		-	-
Total change during the term		-	-
Balance at the end of the fiscal year		1,000	1,000
<b>Retained earnings</b>			
<b>Legal reserve of retained earnings</b>			
Balance at the end of the previous year		1	1
Amount of change during the term			
Total change during the term		-	-
Dividend of surplus		-	-
Balance at the end of the fiscal year		1	1
<b>Other legal reserve of retained earnings</b>			
<b>Special reserves</b>			
Balance at the end of the previous year		17	17
Amount of change during the term			
Total change during the term		-	-
Balance at the end of the fiscal year		17	17
<b>Special price fluctuation reserves</b>			
Balance at the end of the previous year		39	39
Amount of change during the term			
Total change during the term		-	-
Balance at the end of the fiscal year		39	39
<b>Retained earnings brought forward</b>			
Balance at the end of the previous year		559	564
Amount of change during the term			
Dividend of surplus		-	-
Net income		5	3
Total change during the term		5	3
Balance at the end of the fiscal year		564	568
<b>Total retained earnings</b>			
Balance at the end of the previous year		617	622
Amount of change during the term			
Dividend of surplus		-	-
Net income		5	3
Total change during the term		5	3
Balance at the end of the fiscal year		622	625
<b>Treasury stock</b>			
Balance at the end of the previous year		△5	△5
Amount of change during the term			
Deposition of treasury stock		-	-
Total change during the term		-	-
Balance at the end of the fiscal year		△5	△5
<b>Total share-holders' equity</b>			
Balance at the end of the previous year		1,611	1,616
Amount of change during the term			
Issuance of new shares		-	-
Dividend of surplus		-	-
Net income		5	3
Deposition of treasury stock		-	-
Total change during the term		5	3
Balance at the end of the fiscal year		1,616	1,620

(Unit: Million yen)

Item	Fiscal Year	2009	2010
		(from April 1, 2009 to March 31, 2010) Amount	(from April 1, 2010 to March 31, 2011) Amount
<b>Valuation and translation adjustments</b>			
<b>Net unrealized gains on available-for-sale securities</b>			
Balance at the end of the previous year		6	16
Amount of change during the term			
Net amount of changes in items other than owners' equity during the term		10	△2
Total change during the term		10	△2
Balance at the end of the fiscal year		16	14
<b>Total valuation and translation adjustments</b>			
Balance at the end of the previous year		6	16
Amount of change during the term			
Net amount of changes in items other than owners' equity during the term		10	△2
Total change during the term		10	△2
Balance at the end of the fiscal year		16	14
<b>Total net assets</b>			
Balance at the end of the previous year		1,617	1,633
Amount of change during the term			
Issuance of new shares		-	-
Dividend of surplus		-	-
Net income		5	3
Deposition of treasury stock		-	-
Net amount of changes in items other than owners' equity during the term		10	△2
Total change during the term		15	0
Balance at the end of the previous year		1,633	1,634

#### 5 Dividend per stock and total assets per employee

(Unit: Million yen)

Division	Fiscal Year	2008	2009	2010
Dividend per stock		-	-	-
Net income per stock		6.30 yen	2.58 yen	1.80 yen
Dividend propensity		-	-	-
Net assets per stock		813.57 yen	821.32 yen	821.81 yen

#### 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.

Total assets per employee		36,251	42,010	46,164
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## 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 2009	As of the end of fiscal 2010
Total of solvency-margin	506,735	430,847
Common stock, etc. (amount obtained by subtracting an estimated outflow to the outside, deferred assets and valuation and translation adjustments from total net assets)	1,616	1,620
Price fluctuation reserves	7	5
Risk reserves	-	-
Catastrophe reserves	496,708	424,401
Reserves for ordinary bad debts	-	-
(A) Unrealized gain / loss on available-for-sale securities (excluded deductions for Tax Consequences)	8,403	4,464
Unrealized gain and loss included land holdings	-	-
Supplus such as premium reserves	-	-
Funding instruments with a debt-like nature	-	-
Items deductible	-	-
Others	-	354
Total risk	626,848	690,852
$\sqrt{(R1 + R2)^2 + (R3 + R4)^2} + R5 + R6$		
General underwriting risk (R1)	-	-
Underwriting risk in third-area insurance (R2)	-	-
(B) Anticipated Rate of Return Risk (R3)	-	-
Investment risk (R4)	8,957	8,692
Management risk (R5)	12,291	13,546
Catastrophe risk (R6)	605,600	668,614
(C) Solvency-Margin ratio	161.6%	124.7%
$\frac{(A)}{[(B) \times 1 / 2]} \times 100$		

### Note:

The amounts and figures above are calculated based on the provisions of Article 86 and Article 87 of the Enforcement Rules of the Insurance Business Act and the Ministry of Finance Official Notification No.50 in 1996.

## Solvency-margin ratio

The non-life insurance companies 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 for in Section 4, Article 3, Order to specify the division stated in Section 2, Article 132, Insurance Business Law.

**Note: The article is as follows.**

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

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

**① Securities**

**1. Available-for-sale securities with market price**

At the end of fiscal 2009 (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	483,926	490,673	6,746
	Stocks	-	-	-
	Foreign securities	269,042	279,448	10,405
	Others	-	-	-
	Subtotal	752,969	770,121	17,152
Securities with acquisition cost not higher than that posted on the balance sheet	Public & corporate bonds	88,152	87,324	△828
	Stocks	-	-	-
	Foreign securities	158,746	146,365	△12,381
	Others	3,400	3,135	△264
	Subtotal	250,299	236,825	△13,473
Total		1,003,268	1,006,947	3,678

At the end of fiscal 2010

(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	379,451	383,236	3,785
	Stocks	-	-	-
	Foreign securities	190,400	194,537	4,136
	Others	-	-	-
	Subtotal	569,852	577,773	7,921
Securities with acquisition cost not higher than that posted on the balance sheet	Public & corporate bonds	106,786	106,362	△423
	Stocks	-	-	-
	Foreign securities	133,378	121,087	△12,291
	Others	-	-	-
	Subtotal	240,164	227,449	△12,714
Total		810,016	805,223	△4,793

**2. Available-for-sale securities sold at the term**

(Unit: Million yen)

Type	Fiscal 2009			Fiscal 2010		
	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	58,208	582	562	243,308	1,501	1,558

**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 without market price

**② Money trust**

**1. Money trust for investment**

(Unit: Million yen)

Type	As of the end of fiscal 2009		As of the end of fiscal 2010	
	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	-	-	-

**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 2009			As of the end of fiscal 2010		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Money trust	3,750	3,692	△57	-	-	-

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

#### 1. Derivatives transactions to which hedge accounting is not applied

##### (a) Currency related

(Unit: Million yen)

Type	As of the end of fiscal 2009			As of the end of fiscal 2010		
	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						
Short positions						
US dollar	22,549	6,394	679	-	-	-
Euro	229,048	71,341	△1,420	142,439	27,931	△2,938
Canadian dollar	1,211	-	△64	-	-	-
Total			△806			△2,938

**Notes:**

1. Currency related derivatives transactions other than the above are omitted as there is no applicable item.
2. Calculating a market price: Foreign exchange rates depend on futures quotations.

##### (b) Credit related

(Unit: Million yen)

Type	As of the end of fiscal 2009			As of the end of fiscal 2010		
	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						
Long position in credit derivatives transactions	-	-	-	7,994	7,994	△130
Total	-	-	-	7,994	7,994	△130

**Note:**

Calculating a market price: Based on values presented by relationship financial institution.

#### 2. Derivatives transactions to which hedge accounting is applied

Not applicable

**CORPORATE DATA** (as of March 31, 2011)

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Established:	May 30, 1966
Capital:	1 billion yen
Total assets:	1,154.1 billion yen
No. of employees:	25
Address:	Hulic Kobuna-cho Building, 8-1, Nihonbashi-kobuna-cho, Chuo-ku, Tokyo Japan 103-0024
Phone:	03-3664-6098
E-mail:	kikaku@nihonjishin.co.jp
URL:	<a href="http://www.nihonjishin.co.jp/">http://www.nihonjishin.co.jp/</a>

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**Japan Earthquake Reinsurance**