

# ANNUAL REPORT

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2012 Introduction to  
Earthquake Reinsurance in Japan

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## MESSAGE FROM THE PRESIDENT



Chairman: Shozo Wakabayashi      President: Masamichi Irie

We would like to take this opportunity to express our sincere gratitude for the continued support from all our stakeholders.

Japan Earthquake Reinsurance Co., Ltd. (JER) was founded in 1966 as the only company in Japan permitted to exclusively handle reinsurance for earthquake insurance covering dwelling risks. Since then, as the core entity in this sector, we have not only been committed to bolstering and upgrading the systems covering our reinsurance payment, but also to providing our best care in managing and operating the assets that support the system.

In the wake of the Great East Japan Earthquake, we united throughout the year in fulfilling the social mission of earthquake insurance, namely helping to establish the stability for those affected. Accordingly, we have been arranging insurance payouts of more than 1 trillion yen, the largest insurance payout since the establishment of the earthquake insurance system, in cooperation with the Japanese government and non-life insurance companies.

As a result of the Great East Japan Earthquake, it has been reported that seismic and volcanic activity in Japan has increased. Facing the possibility of continued aftershocks, we are now required to take steps to be fully prepared for earthquakes and other disasters that may occur in the future, including an inland earthquake that could hit the Tokyo metropolitan area in the future and large earthquakes that may occur simultaneously or in quick succession in three areas: Tokai, Tonankai and Nankai.

In this environment, public expectations and concerns about earthquake insurance will rise, and JER 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.

We began executing its third medium-term business plan from the current fiscal year. Under the new management structure, we will play an active role in enhancing and developing the earthquake insurance system and will strive to make JER even more reliable and trustworthy for our stakeholders.

We have prepared this annual report 2012 to provide our stakeholders with insight into the current situation and activities of JER. We welcome your comments and opinions.

July 2012

Masamichi Irie  
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 industry 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 purchase 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 purchase 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 yen 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 yen for a building\*\* and 10 million yen 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 yen, 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 due to war or insurrection
- Loss or damage occurring ten days or more after the earthquake
- Loss or damage caused only to gates, walls, fences, and other parts that are not major structural parts.

\* 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 6,200 billion yen as revised in April 6, 2012 per earthquake, etc.. (On the same day, the liability limits of JER, non-life insurance companies and the government, as well as the methods of determining the burden of liabilities, were revised. Please refer to Page 12 for the details.) 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*

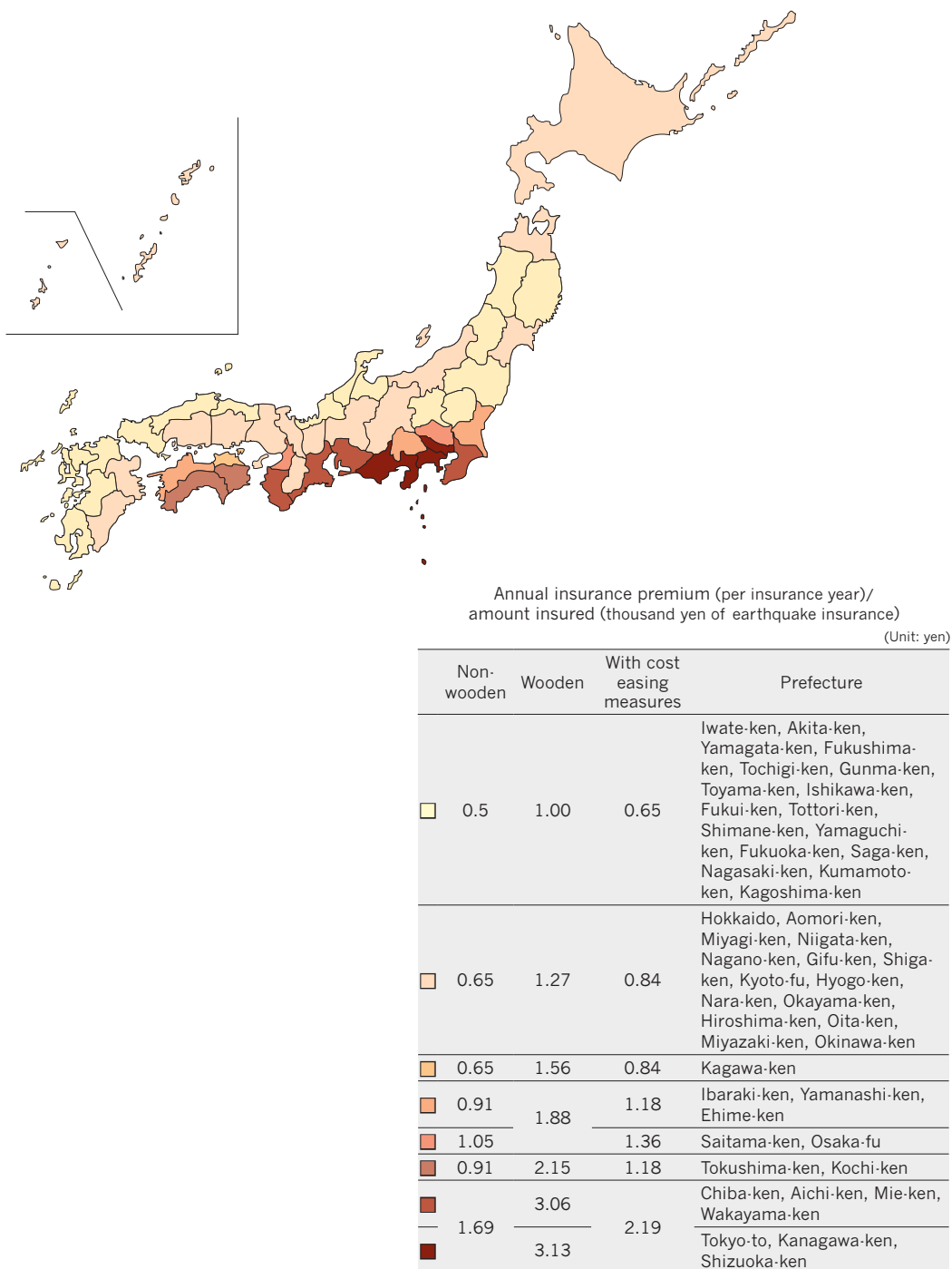
An organization established in accordance with the Law concerning Non-Life Insurance Rating Organizations, which aims to provide a fair basis premium rate applicable to non-life insurance.

\*\*\* *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%
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### (b) Earthquake-resistance class\*\* discount rate

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

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

#### \* 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 Paragraph 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 a seismic 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%

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

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

\* 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.

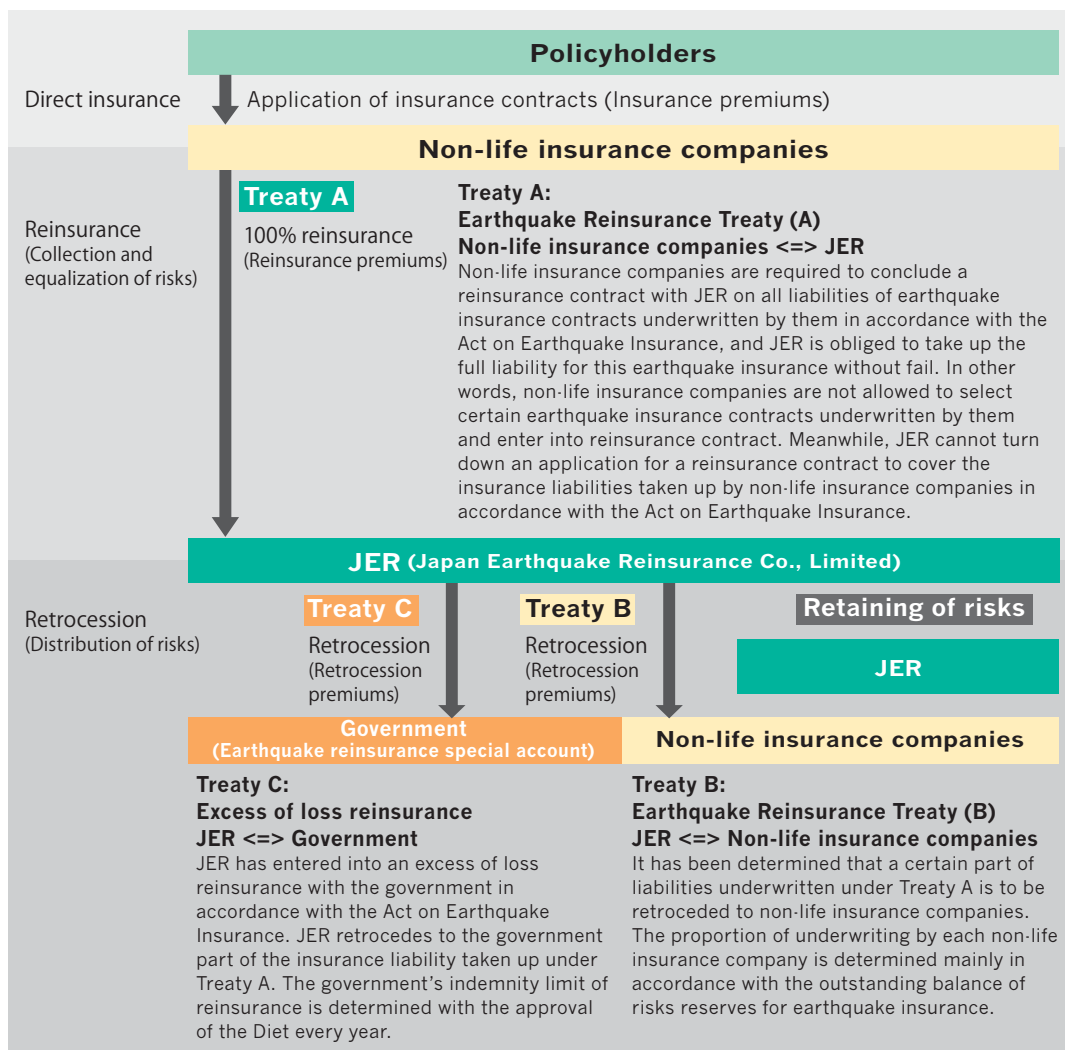
When a major earthquake occurs, a non-life insurance company must make a large amount of money ready so that it can pay a large number of insurance claims. To avoid problems in paying insurance claims, the government has set forth a ministerial ordinance that covers the payment of reinsurance claims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



## FLOWCHART OF REINSURANCE

To enable the government, non-life insurance companies and JER to share insurance liabilities in an equitable manner, it is necessary to first collect and standardize evenly the risks non-life insurance companies underwrote, and then distribute them to the relevant organizations. It is also necessary to receive insurance premiums (reinsurance and retrocession premiums) as compensation for taking on insurance liabilities. To collect, evenly standardize and distribute risks and to give and take insurance premiums (reinsurance and retrocession premiums), reinsurance transactions are conducted, centered on JER.

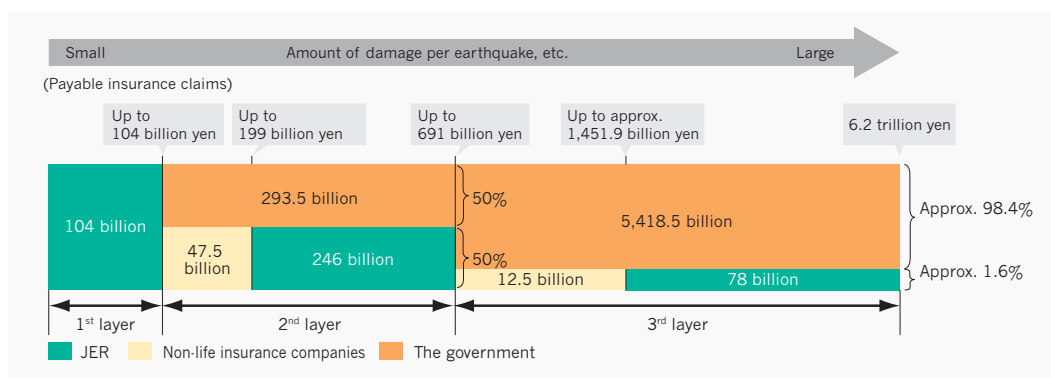
JER first reinsures earthquake insurance contracts that were underwritten by non-life insurance companies, and then divides the risks evenly. After excluding the risks held by JER, JER implements retrocession against the government and non-life insurance companies in accordance with the burden of risks taken on by each organization.



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

The limit of the total amount of insurance claims to be paid per earthquake, etc. is set in advance. This system is designed so that, even in the event of an earthquake as devastating as the Great Kanto Earthquake, insurance claims can be paid without problems. The current limit of total amount of insurance claims to be paid is set at 6.2 trillion yen. This is the reinsurance scheme that shows how JER, non-life insurance companies and the government share and limit insurance liabilities within the limit of the total amount of insurance claims to be paid per earthquake.

### REINSURANCE SCHEME (APPLICABLE TO EARTHQUAKE, ETC. THAT TAKE PLACE AFTER APRIL 6, 2012)



### LIABILITY LIMIT

JER	428.0 billion yen
Non-life insurance companies	60.0 billion yen
The government	5,712.0 billion yen

JER pays insurance claims up to 104 billion yen (1st layer) per earthquake, etc. The government and others (non-life insurance companies and JER) share equally insurance claims for the portion exceeding 104 billion yen, up to 691 billion yen (2nd layer). The government pays a majority of insurance claims (approximately 98.4%) for the portion exceeding 691 billion yen (3rd layer). In portions of insurance claims to be paid by non-life insurance companies in the 2nd and 3rd layers, the first part represents insurance claims to be paid by non-insurance companies and the second part by JER.

In this way, in cases where insurance claims per earthquake, etc. exceed a certain amount, excess liabilities are shared by the relevant organizations. This is called the excess of the loss reinsurance.



## EXAMPLES OF INSURANCE CLAIMS TO BE PAID BY JER, NON-LIFE INSURANCE COMPANIES AND THE GOVERNMENT

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

(Unit: billion yen)

Claims paid				
	Portion up to 104 billion yen	Portion over 104 billion yen, and up to 691 billion yen	Portion over 691 billion yen, and up to 2,000 billion yen	Total
A person of burden				
JER	104.0	246.0	About 9.0	About 359.0
Non-life insurance companies	—	47.5	12.5	60.0
The government	—	293.5	About 1,287.5	About 1,581.0
Total	104.0	587.0	1,309.0	2,000.0

## THE BALANCE OF RISK RESERVES AT JER AND NON-LIFE INSURANCE COMPANIES AND THE GOVERNMENT LIABILITY RESERVES AT THE END OF FISCAL 2011

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	331.2 billion yen
Non-life insurance companies	62.7 billion yen
The government	886.8 billion yen
Total	1,280.8 billion yen

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

2: Government reserves will be finalized when the settlement for fiscal 2011 is approved by the Diet.

3: JER's risk reserves as at the end of fiscal 2011 are the amount after deducting outstanding claims as at the end of fiscal 2011.

# STATISTICS

## REINSURANCE CLAIMS PAID IN FISCAL 2011

Reinsurance claims paid in fiscal 2011 amounted to 1,240.6 billion yen, including earthquake reinsurance claims paid to cover the 2011 off the Pacific coast of Tohoku Earthquake. In terms of numbers, 753,310 claims were paid (on the basis of insurance policies). See below for major claims paid per earthquake.

Earthquake (Region name)	Date of occurrence	Magnitude	No. of policies	Reinsurance claims paid (million yen)
1. The 2011 off the Pacific coast of Tohoku	March 11, 2011	9.0	710,821	1,195,351
2. Miyagi-ken-oki	April 7, 2011	7.2	28,120	30,387
3. Shizuoka-ken Tobu	March 15, 2011	6.4	4,391	3,722
4. Fukushima-ken Hamadori	April 11, 2011	7.0	2,184	3,495
5. Nagano-ken Chubu	June 30, 2011	5.4	2,773	3,160
Other earthquakes	—	—	5,021	4,483
Total	—	—	753,310	1,240,600

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

Earthquake (Region name)	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	24,044	7,186	60,822,485	29.9	Nearly 0%–1%
Tokyo metropolitan	16,983	5,205	43,417,699	30.6	About 70%
Tokai	22,860	7,062	59,615,437	30.9	88% (reference value)
Tonankai	21,665	6,209	52,738,507	28.7	About 70%
Nankai	29,476	8,025	68,111,780	27.2	About 60%

Note 1: The figures were prepared by JER by focusing on the main prefectures affected by earthquakes based on the latest loss estimates prepared by the Non-Life Insurance Rating Organization of Japan.

2: The probability that an earthquake could occur within the next 30 years is based on the 2012 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.





## 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.

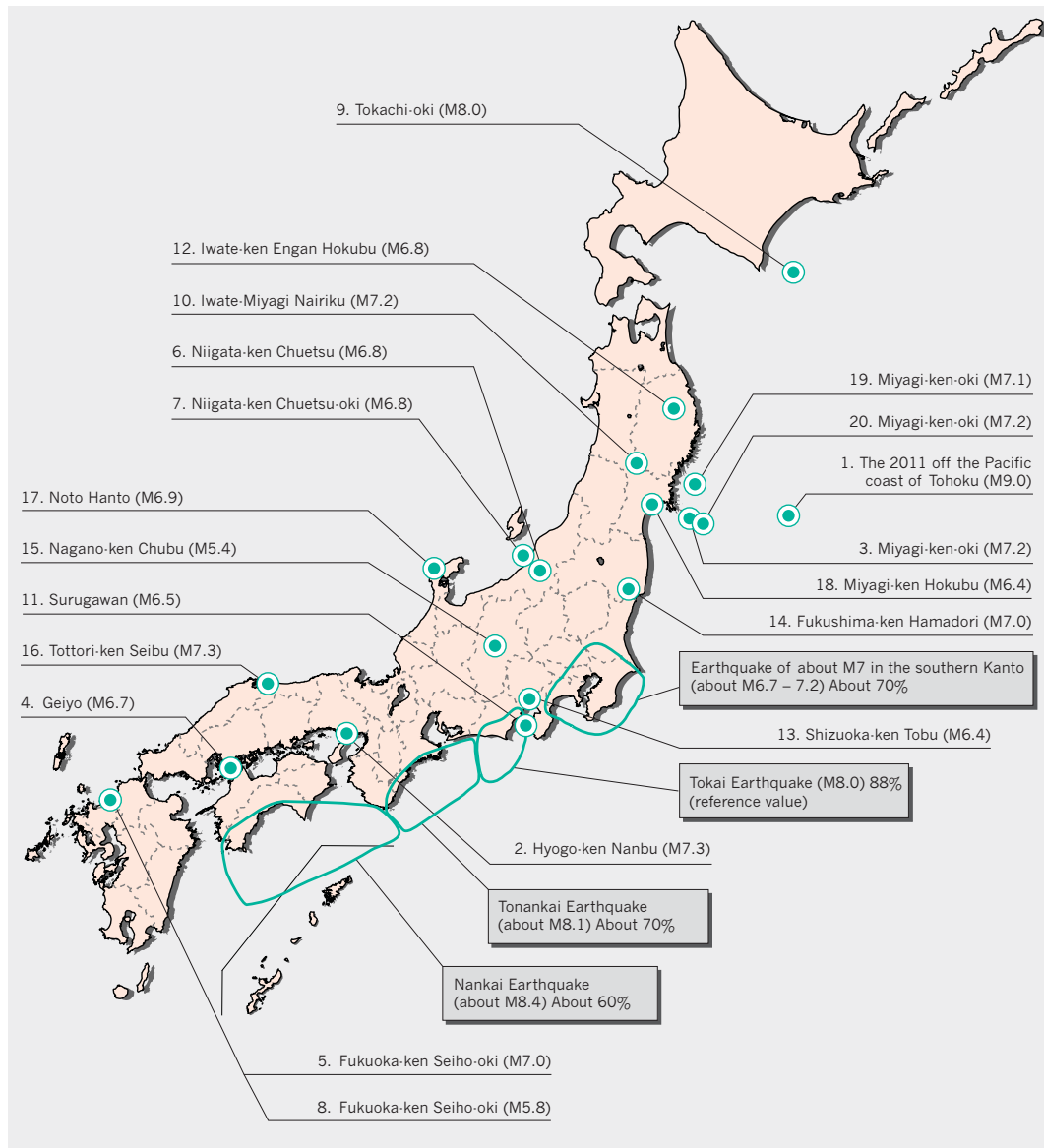
(As of March 31, 2012)

Earthquake (Region name)	Date of occurrence	Magnitude	No. of policies	Reinsurance claims paid (million yen)
1. The 2011 off the Pacific coast of Tohoku	March 11, 2011	9.0	710,821	1,195,351
2. Hyogo-ken Nanbu	January 17, 1995	7.3	65,427	78,346
3. Miyagi-ken-oki	April 7, 2011	7.2	28,120	30,387
4. Geiyo	March 24, 2001	6.7	24,450	16,940
5. Fukuoka-ken Seiho-oki	March 20, 2005	7.0	22,014	16,934
6. Niigata-ken Chuetsu	October 23, 2004	6.8	12,604	14,895
7. Niigata-ken Chuetsu-oki	July 16, 2007	6.8	7,854	8,243
8. Fukuoka-ken Seiho-oki	April 20, 2005	5.8	11,334	6,426
9. Tokachi-oki	September 26, 2003	8.0	10,552	5,990
10. Iwate-Miyagi Nairiku	June 14, 2008	7.2	8,274	5,537
11. Suruga-wan	August 11, 2009	6.5	9,273	5,007
12. Iwate-ken Engan Hokubu	July 24, 2008	6.8	7,754	3,972
13. Shizuoka-ken Tobu	March 15, 2011	6.4	4,391	3,722
14. Fukushima-ken Hamadori	April 11, 2011	7.0	2,184	3,495
15. Nagano-ken Chubu	June 30, 2011	5.4	2,773	3,160
16. Tottori-ken Seibu	October 6, 2000	7.3	4,078	2,868
17. Noto Hanto	March 25, 2007	6.9	3,303	2,729
18. Miyagi-ken Hokubu	July 26, 2003	6.4	2,543	2,172
19. Miyagi-ken-oki	May 26, 2003	7.1	2,970	1,918
20. Miyagi-ken-oki	August 16, 2005	7.2	2,793	1,551

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.





## RESPONSE TO THE GREAT EAST JAPAN EARTHQUAKE

At 2:46 p.m. on March 11, 2011, the largest earthquake in recorded Japanese 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. The Japan Meteorological Agency named this earthquake, “The 2011 off the Pacific coast of Tohoku Earthquake,” while the Japanese government decided to collectively call the disaster “The Great East Japan Earthquake,” which referred to the damage caused by the earthquake, the subsequent tsunami, and aftershocks.

Responding to this devastating disaster, the non-life insurance industry and the Japanese government were united to take initiatives to promptly and steadily make insurance payouts to support the reconstruction of the lives of policyholders.

### SUMMARY OF THE GREAT EAST JAPAN EARTHQUAKE

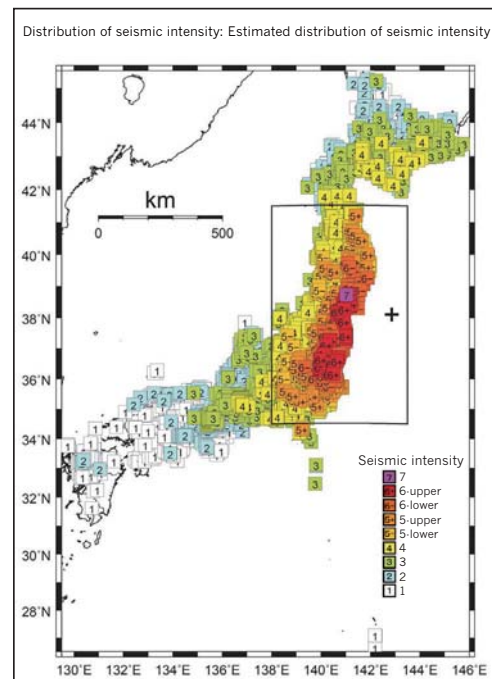
#### Outlook of the Earthquake

- (i) Date and Time: Friday, March 11, 2011, 14:46 JST (05:46 UTC)
- (ii) Hypocenter: Sanriku-oki (N38.1, E142.5)
- (iii) Depth: 24 km
- (iv) Magnitude: 9.0
- (v) JMA Seismic Intensity:

The intensity of 7 was recorded in Kurihara City, Miyagi Prefecture, and the intensity of a 6-upper was recorded in 34 cities and towns in four prefectures of Miyagi, Fukushima, Ibaraki and Tochigi, in addition to a wide area of Japan from Hokkaido to Kyushu, mainly in the eastern part of Japan, where the intensity of between a 6-lower and 1 was recorded.

- (vi) Number of aftershocks:  
The number of aftershocks so far (as at noon, March 8, 2012) is as follows.

Maximum seismic intensity	No. of aftershocks
6-upper	2
6-lower	2
5-upper	10
5-lower	33
4	184



Sources: “Monthly Report on Earthquakes and Volcanoes in Japan, March 2011” of the Japan Meteorological Agency

### Summary of damage (as of March 13, 2012)

(i) Casualties:	Death:	16,278 people
	Missing:	2,994 people
	Injured:	6,179 people
(ii) Residential damage:	Total collapse:	129,198 houses
	Half collapse:	254,238 houses
	Partially collapse:	715,192 houses

\* Prepared by JER based on “Monthly Report on Earthquakes and Volcanoes in Japan, March 2011” of the Japan Meteorological Agency and “The 2011 off the Pacific coast of Tohoku Earthquake (the Great East Japan Earthquake) (No. 145)” of the Fire and Disaster Management Agency

## INITIATIVES TAKEN IN THE WAKE OF THE GREAT EAST JAPAN EARTHQUAKE

### 1. Initiatives taken by the non-life insurance industry

To carry out the social mission of earthquake insurance, “Contribute to establishing a stable living for the victims,” the General Insurance Association of Japan (the “GIAJ”) established an “Earthquake Insurance Central Command,” and the non-life insurance industry united across all member companies to take the initiatives described below. As a result, as of May 31, 2012, the overall non-life insurance industry paid earthquake insurance of approximately 1,234.5 billion yen.

#### (1) Enhancement of information provision to customers

The GIAJ prepared posters (approximately 80,000 sheets) and leaflets (approximately 546,000 copies) that presented inquiry addresses and telephone numbers of non-life insurance companies, and presented and distributed them mainly to municipal government offices and evacuation centers. It also published a list of inquiry addresses of member companies in 18 newspapers, while it broadcast 500 radio commercial messages about the inquiry addresses of the GIAJ, and released advertising (on 12 regional television stations in affected areas) to encourage policyholders to make earthquake insurance claims. Moreover, it introduced special measures to the no-entry zone and other areas in the wake of the accident at the Fukushima Daiichi Nuclear Power Plant, and published payments of earthquake insurance in two newspapers in Fukushima Prefecture.

#### (2) Strengthening support for customers who are unsure about their insurance companies

The GIAJ established an “the Center for Searching Earthquake Insurance Contracts” for customers who were unsure about which insurers their earthquake insurance and other non-life insurance contracts were concluded with because they had lost their insurance policies, due to the disaster and other reasons. It helped confirm customers’ non-life insurance companies through the specially designated free telephone services and the web page. In the same manner, each member company also dealt with inquiries from customers who were unsure about their insurance companies.



(3) Prompt insurance payouts by streamlining loss confirmation procedures and survey of earthquake insurance

Because the tsunami and fires caused losses across large areas of the coastal regions in Iwate, Miyagi and Fukushima prefectures, non-life insurance companies carried out a joint loss survey, in what was an industry's first. Non-life insurance companies identified areas with the same level of losses through the joint survey, and identified areas that had sustained devastating damage from the disaster as "total loss areas" using aerial and satellite photography as well as tours of the areas themselves. As a result, by waiving the need for onsite inspections, member companies promptly paid total earthquake insurance claims for earthquake insurance contracts in total loss areas. To facilitate claims by customers, the GIAJ also published the total loss area on its website.

(4) Simpler procedures for earthquake insurance claims

In conducting an earthquake loss survey on wooden buildings and on furniture in such buildings, in addition to onsite inspections, non-life insurance companies adopted a loss inspection in which, provided certain requirements are met, onsite inspections are waived and the loss is inspected based on photos taken by customers and other self-reported documents. They also conducted inspections based on self-reported documents for claims in the no-entry zone and other areas where entries were limited in the wake of the accident at the Fukushima Daiichi Nuclear Power Plant.

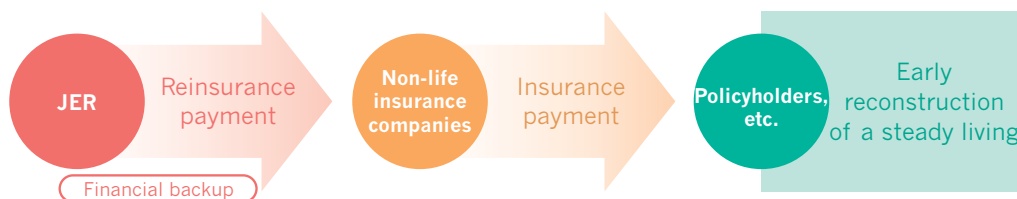
(5) Donation of the relief money

To help support people in the areas affected by the Great East Japan Earthquake, the GIAJ received donations from 26 member companies and donated relief money of 1 billion yen to the Japanese Red Cross Society.

## 2. Initiatives taken by JER

### JER's mission and role in the face of major disasters

Our mission in the face of major disasters is to financially facilitate prompt insurance payouts by non-life insurance companies through "reinsurance payouts" to support the early reconstruction of the lives of policyholders in the afflicted areas.



## Prompt reinsurance payment

To promptly make reinsurance payouts to non-life insurance companies, we established an Earthquake Disaster Countermeasures Headquarters on the day the Great East Japan Earthquake took place, and took steps to promptly secure funds and make reinsurance payouts based on approximate projections, in cooperation with non-life insurance companies and the government. As a result, we made reinsurance payouts of approximately 1,195.4 billion yen for approximately 710,000 policies<sup>(Note)</sup> by the end of March 2012.

(Note) The figures do not include reinsurance payouts related to aftershocks and other earthquakes.

### — Securing funds promptly

- ✓ Preparation of approximately 322.4 billion yen in cash by selling assets within 20 days of the occurrence of the earthquake (March 31, 2011).
- ✓ Receipt of reinsurance payouts of approximately 426.8 billion yen (based on approximate projections) from the government within 73 days of the occurrence of the earthquake (May 23, 2011).

Because the earthquake insurance system is a system whose income and expenditures are designed to be balanced out after a long period of time, all premiums received, after deducting necessary expenses, are individually set aside as reserves by non-life insurance companies and the government.

Insurance claims paid to policyholders affected by the earthquake were funded from these reserves. To promptly secure funds for reinsurance payouts to non-life insurance companies, we quickly started to sell our reserve assets from the first business day after the occurrence of the earthquake. At the same time, cooperating with the government, we flexibly requested the government's reinsurance payouts and implemented procedures for receiving the payments.



### — Reinsurance payouts based on approximate projections

- ✓ Provision of funds of approximately 968.6 billion yen to non-life insurance companies within 75 days of the earthquake (May 25, 2011).

To facilitate prompt insurance payouts by non-life insurance companies to policyholders, we made reinsurance payouts based on approximate projections for the first time since the establishment of Japan's earthquake insurance system.

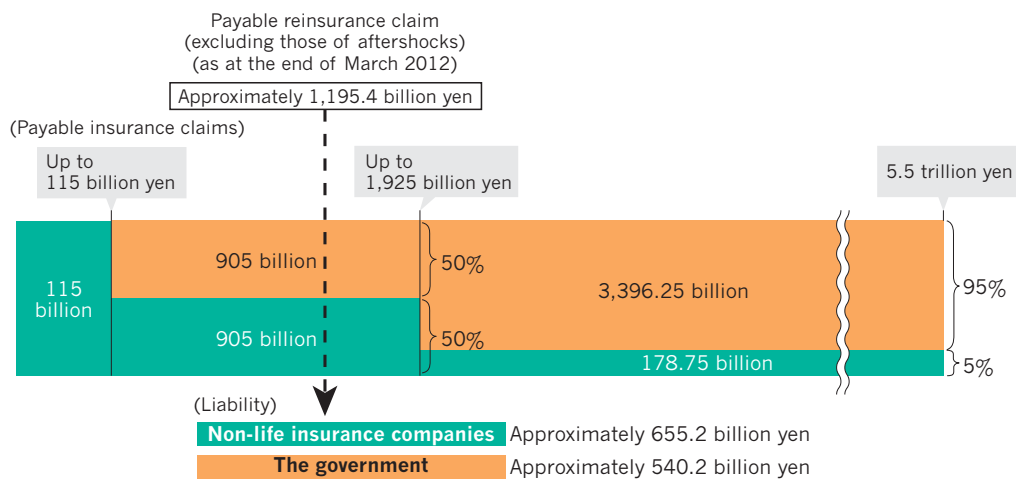
Payments based on approximate projections is a system in which estimated reinsurance payouts based on rough projections on the amount of damage incurred by the relevant earthquake. The system is designed to make it possible to provide in advance the funds necessary for insurance payouts to non-life insurance companies before they actually pay insurance claims to policyholders who are afflicted by an earthquake.



## STATUS OF THE BURDEN OF LIABILITIES ASSOCIATED WITH THE GREAT EAST JAPAN EARTHQUAKE

The reinsurance scheme for the Great East Japan Earthquake and the share of liabilities for the damage from the earthquake between non-life insurance companies and the government are as follows:

### Reinsurance scheme at the time when the Great East Japan Earthquake took place (from April 1, 2009 to May 1, 2011)



### LIABILITY LIMIT

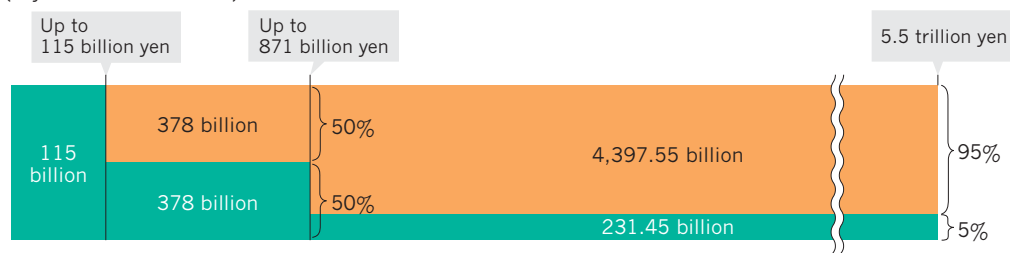
Non-life insurance companies (including JER)	1,198.75 billion yen
The government	4,301.25 billion yen
Total	5,500.00 billion yen

## MODIFICATION OF THE REINSURANCE SCHEME AFTER THE GREAT EAST JAPAN EARTHQUAKE

Reserves of non-life insurance companies noticeably decreased with the burden of liabilities after the Great East Japan Earthquake. As a result, to reinforce the continuity and the stability of the scheme to deal with large-scale earthquakes in the future, the reinsurance scheme was revised on May 2, 2011, as shown below.

### Reinsurance scheme after the Great East Japan Earthquake took place (from May 2, 2011 to April 5, 2012)

(Payable insurance claims)



### LIABILITY LIMIT

Non-life insurance companies (including JER)	724.45 billion yen
The government	4,775.55 billion yen
<b>Total</b>	<b>5,500.00 billion yen</b>

Note: Please refer to Page 12 for information on the mechanism of reinsurance and the latest reinsurance scheme.

## STATUS OF REINSURANCE PAYMENTS ASSOCIATED WITH THE GREAT EAST JAPAN EARTHQUAKE

(As of March 31, 2012)

### BY PREFECTURES

Region	No. of policies	Reinsurance claims (million yen)
Hokkaido	716	735
Tohoku		
Aomori	7,081	4,589
Iwate	25,012	56,348
Miyagi	240,111	547,305
Akita	1,801	1,019
Yamagata	2,938	2,410
Fukushima	72,564	153,773
Subtotal	349,507	765,446





Region		No. of policies	Reinsurance claims (million yen)
Kanto, Koshinetsu, Shizuoka	Ibaraki	101,146	151,757
	Tochigi	35,245	42,041
	Gunma	7,671	6,746
	Saitama	30,708	24,553
	Chiba	80,402	103,961
	Tokyo	83,553	81,352
	Kanagawa	17,375	15,252
	Niigata	1,231	986
	Yamanashi	2,024	1,439
	Nagano	228	278
	Shizuoka	721	529
	<b>Subtotal</b>	<b>360,304</b>	<b>428,899</b>
Other prefectures		294	270
<b>Total</b>		<b>710,821</b>	<b>1,195,351</b>

Note 1: The number of policies represents the number of insurance policies of earthquake insurance contracts, under which insurance claims were paid.

2: The figures do not include reinsurance payouts related to aftershocks.

## BY PROPERTIES AND LOSS CATEGORIES

### Tohoku region

	Buildings		Personal property		Total	
	No. of properties	Reinsurance claims (million yen)	No. of properties	Reinsurance claims (million yen)	No. of properties	Reinsurance claims (million yen)
Total loss	22,635	204,545	13,034	43,034	35,669	247,580
Half loss	62,601	293,449	74,103	118,925	136,704	412,375
Partial loss	185,639	97,994	45,007	7,495	230,646	105,490
<b>Total</b>	<b>270,875</b>	<b>595,989</b>	<b>132,144</b>	<b>169,456</b>	<b>403,019</b>	<b>765,446</b>

### Non-Tohoku region

	Buildings		Personal property		Total	
	No. of properties	Reinsurance claims (million yen)	No. of properties	Reinsurance claims (million yen)	No. of properties	Reinsurance claims (million yen)
Total loss	4,905	45,674	681	2,216	5,586	47,890
Half loss	31,937	153,182	33,332	59,087	65,269	212,270
Partial loss	258,379	153,324	88,706	16,419	347,085	169,744
<b>Total</b>	<b>295,221</b>	<b>352,181</b>	<b>122,719</b>	<b>77,723</b>	<b>417,940</b>	<b>429,905</b>

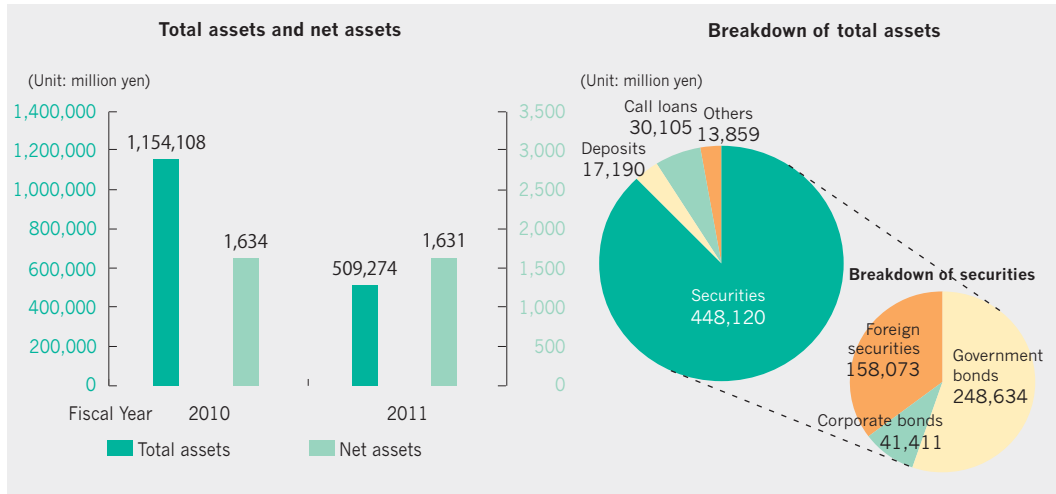
Note 1: The number of properties represents the number of properties (by building and personal property) under the earthquake insurance contracts, whose insurance claims were paid.

2: The figures do not include reinsurance payouts related to aftershocks.

# JAPAN EARTHQUAKE REINSURANCE CO., LTD.

## FINANCIAL HIGHLIGHTS





## 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.

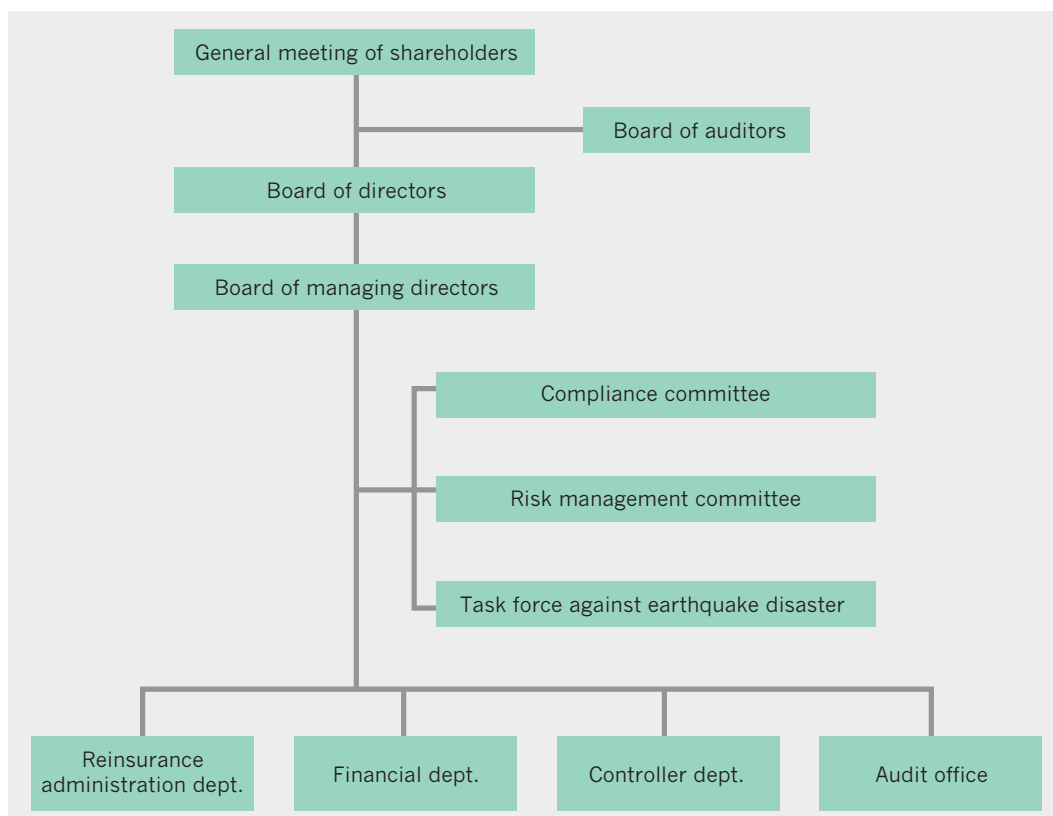
Earthquake insurance on dwelling risks depends on this reinsurance system (which is a safety net, as it were), in which the government, non-life insurance companies and JER participate to ensure that insurance claims can be paid to policyholders without fail.

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.

## ORGANIZATION

(As of April 1, 2012)



## SHAREHOLDERS

(As of March 31, 2012)

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
SECOM General Insurance Co., Ltd.	7	0.4



## DIRECTORS (FULL-TIME)

(As of July 1, 2012)

Post	Name
Chairman (representative director)	Shozo Wakabayashi
President (representative director)	Masamichi Irie
Managing director (representative director)	Tadashi Baba
Managing director (representative director)	Hiroyuki Fushimi
Corporate auditor	Takashi Shikama

## RESPONSE TO GREAT EARTHQUAKES

Our most important mission is to support prompt insurance payouts by non-life insurance companies and to promptly and steadily make reinsurance payouts. To achieve this, we have established a standing Task Force against Earthquake Disaster consisting of full-time directors and managers, and it carries out exercises and develops a system on a regular basis every year to deal with great disasters. We also manage and operate our assets that are accumulated for reinsurance payouts by paying the utmost attention to liquidity (cashability) and safety so that reinsurance payouts are made without delay in the face of major disasters. Specific responses are as follows.

### TASK FORCE AGAINST EARTHQUAKE DISASTER AND ITS ACTIVITIES

Task Force against Earthquake Disaster has been established as a standing in-house organization. The committee carries out exercises, including emergency responses and drills for reinsurance payouts, in accordance with an annual plan in preparation for the occurrence of an inland earthquake that strikes the Tokyo metropolitan area, and it develops and examines a disaster response manual among other activities.

During fiscal 2011, while concentrating its resources on responding to the Great East Japan Earthquake that occurred just before the fiscal year started, we drew lessons from the experience and issues identified during the process and took steps to incorporate the lesson and the experience to prepare the response in the event of an inland earthquake in the Tokyo metropolitan area, the likelihood of which is presently considered to be high. Specifically, we evaluated the results of each measure that was taken in dealing with the Great East Japan Earthquake, and identified issues. For those issues that required an urgent response, we immediately took steps to address them.

*Main issues, etc.*

- Strengthening processing capabilities and improving the functions of the reinsurance payment system and other systems
- Developing a backup system to ensure operational continuity with high precision
- Securing communication methods immediately after an earthquake

In addition, we carried out disaster response drills that were attended by all officers and employees in preparation for an inland earthquake in the Tokyo metropolitan area, similar to the drill carried out in the previous year.

#### **First disaster response drill**

On February 15, we reported the results of examinations by external consulting companies, the “Examination of the Disaster Response Manual, etc. (Tokio Marine & Nichido Risk Consulting Co., Ltd.)” and the “Examination of JER’s Anticipated Damage Caused During the Inland Earthquake in the Tokyo Metropolitan Area (InterRisk Research Institute & Consulting, Inc.)” We also conducted drills to operate the safety confirmation and communication system.

#### **Second disaster response drill**

On March 14, we carried out a tabletop exercise in preparation for an inland earthquake striking the Tokyo metropolitan area, similar to that done in the previous year, by inviting a guest lecturer from Nomura Research Institute, Ltd. During the exercise, we reflected on the actions when the Great East Japan Earthquake struck, and confirmed and fully understood the regulations and rules so that they would be able to take appropriate actions even in the event of an inland earthquake in the Tokyo metropolitan area. The participants also looked into ways to develop better regulations and rules.

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

Should an inland earthquake in the Tokyo metropolitan area 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 short- and medium-term securities.

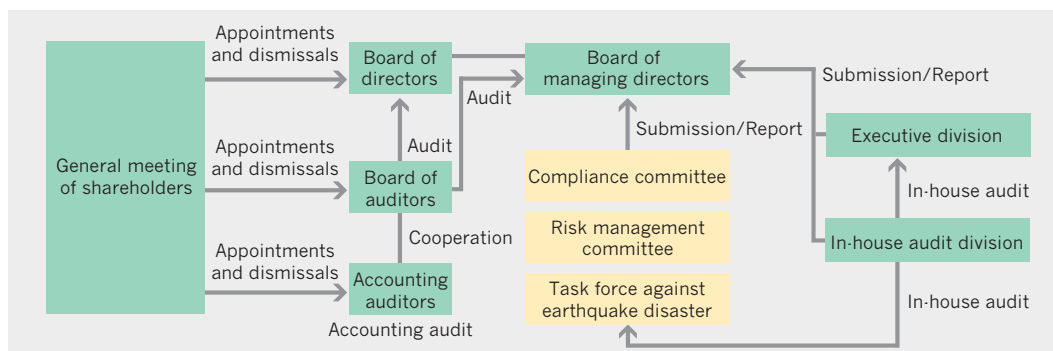
### **PREPARATIONS FOR DISASTERS**

We have installed in its head office an earthquake alert system provided from the Japan Meteorological Agency to ensure the safety of visitors, officers and employees. We have also taken the initiative to improve the earthquake resistance of its headquarters by securely fixing office facilities and equipment. As part of its steps to ensure a continuation of operations in the event of an inland earthquake in the Tokyo metropolitan area, we have installed important internal systems in a cutting-edge data center that has the most sophisticated levels of the earthquake-resistant capacity and energy efficiency in Japan.



## CORPORATE GOVERNANCE

### IN-HOUSE GOVERNANCE SYSTEM



### COMMITTEE-BASED OPERATION

We have established a Compliance Committee and a 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, we are 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 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 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 2012, based on the “In-House Audit Policy and Plan” adopted by resolution of the Board of Directors, we decided to focus on audits of the progress of the initiatives in handling risks to be managed, and in dealing with systems at the time of disasters, in light of the establishment of new comprehensive risk management rules. We will also 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 Risk Management Committee to supervise comprehensive risk management. We have also set forth management methods for various risks 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, foreign exchange risk, and price volatility risk. These are the risks of losses that investors may sustain with fluctuations in the value of assets or debt, or in income, due to changes in a number of risk factors in the market. We manage overall market risks both quantitatively and qualitatively. We measure the value at risk (VaR) of interest rates and currency exchange as the amount of risk, while also monitoring the unrealized gain/loss and price changes (sensitivity). We also apply an upper limit of retention or a loss-cut rule if necessary. In addition, we have separate divisions for executing transactions and for handling administrative processes, respectively, thereby enabling the supervisory and checking functions to function effectively.

#### *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.





#### *Stress test*

The VaR that statistically measures the amount of risks has a limit in circumstances when financial market is fluctuating greatly. The stress test is used to complement monitoring in such circumstances. The stress test examines the amount of potential losses by assuming a situation in which risk factors, such as interest rates and exchange rates, fluctuate considerably.

### **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 other operational 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 “reputational risks.” We strive to manage these risks with each responsible division playing the leading role.

\* Underwriting risks are excluded from risks to be managed, because earthquake insurance on dwelling risks has been managed under the legal system.

## Financial Section

### **Financial Review**

#### **Indicators Showing the Main Results over the Last Five Fiscal Years**

#### **Summary of Operations**

#### **Accounting Concepts**

1. Financial statements
2. Details of Assets and Liabilities
3. Income and loss details
4. Information about fair values, etc.

## FINANCIAL REVIEW

### Business development, results, etc.

During fiscal 2011, the Japanese economy experienced declines in exports and capital investments, on the back of a drop in production activities in the wake of the Great East Japan Earthquake. However, as the restoration of the supply chain progressed, production and exports started to improve, while capital investments and consumer spending also started to show signs of recovery.

The number of earthquake insurance contracts and premiums written increased during the year under review, backed by a growing interest in earthquake insurance following the Great East Japan Earthquake. Meanwhile, the number and amount of earthquake insurance payouts reached the highest levels since the establishment of the earthquake insurance system.

As for asset management, earnings from investments declined markedly year on year, reflecting a significant decrease in investment assets, as we continued to sell holding securities to pay reinsurance claims mainly associated with the earthquake.

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 final year of our second medium-term business plan. In light of changes in the business environment surrounding us, 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 pursuing a number of initiatives including an examination of inspections and initiatives associated with disasters, verifying the impact on the market and risks from the occurrence of disasters, and a responding to a significant decline in risk reserves in the aftermath of the Great East Japan Earthquake, aiming to develop into a company that will be even more reliable and trustworthy for our stakeholder.

### Summary of earthquake insurance results

① Net premiums written and net insurance claims paid  
In the fiscal year under review, both the number of insurance contracts and reinsurance premiums written increased. As a result, net premiums written amounted to 83.6 billion yen (up 17.0% year on year). Net insurance claims paid came to 196.6 billion yen (up 18,927.3% year on year), mainly reflecting the effects of the Great East Japan Earthquake.

#### ② Risk reserves and underwriting reserves

Risk reserves added amounted to 43.7 billion yen (up 0.9% year on year), which is the total of net premiums written of 40.5 billion yen, given by deducting assumed reinsurance commissions from net premiums written, and a profit of 3.1 billion yen from investments.

Risk reserves at the end of the fiscal year under review were 331.2 billion yen (down 21.9% year on year), reflecting the reversal of the provision for outstanding claims of 100 billion yen to risk reserves and the drawing from risk reserves in the past year for the payment of ongoing net insurance claims of 196.6 billion yen, loss adjustment expenses of 40.1 billion yen, and advertising and publicity expenses of 0.1 billion yen.

Underwriting reserves at the end of the fiscal year under review totaled 430.4 billion yen (down 16.6% year on year), after adding unearned premium reserves and refunded reserves to the risk reserves.

#### ③ Risk reserves of direct insurance companies

Risk reserves of direct insurance companies were 62.7 billion yen for the fiscal year under review (down 87.2% year on year), obtained by adding net premiums written and profit from investments of 16.6 billion yen (down 42.0% year on year), reversing the provision of outstanding claims of 63 billion yen to risk reserves, drawing 501 billion yen out of reinsurance payments of 503.8 billion yen, publicity expenses of 0.9 billion

yen, as well as drawing 4 billion yen to reflect changes in the average company-wide effective tax rate as a result of the revision of the tax system.

### Outline of investments

Medium- to long-term domestic interest rates temporarily rose in April, given concerns over a deterioration in the supply-demand balance, due to the additional issuance of government bonds to finance reconstruction programs from the disaster. However, they later fell significantly, mainly reflecting the attenuation of concerns over the additional issuance of government bonds, following the introduction of a reconstruction tax, as well as growing concerns over a slowdown in the U.S. economy and the escalation of the European sovereign crisis.

The yen remained strong against the euro, against the backdrop of the worsening sovereign crisis in Europe, appreciating about 8 yen compared with that at the end of the previous fiscal year.

In these circumstances, we invested in assets with the top priority placed on safety and liquidity, followed by profitability. As a result, pre-tax profits from investments amounted to 3.5 billion yen in the business account and 2.9 billion yen in the entrusted reserves account. Consequently, investment assets at the end of the year under review stood at 495.4 billion yen.

### Profit and loss for the fiscal year under review

Net loss stood at 5 million yen for the fiscal year under review, reflecting a negative impact on income from a decline of 10 million yen in deferred tax assets, due to the lowering of the statutory effective tax rate, as a result of the revision of the tax system.

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

(Unit: Million yen)

Division	Fiscal Year	2007	2008	2009	2010	2011
Net premiums written		64,040	67,126	72,225	71,532	83,671
Percentage change over the previous term		(5.8%)	4.8%	7.6%	(1.0%)	17.0%
Ordinary income		81,290	84,993	99,464	175,903	287,036
Percentage change over the previous term		(10.1%)	4.6%	17.0%	76.9%	63.2%
Ordinary expenses		81,273	84,792	98,512	174,913	286,723
Percentage change over the previous term		(9.9%)	4.3%	16.2%	77.6%	63.9%
Ordinary profit		16	200	951	990	312
Percentage change over the previous term		(88.5%)	1,108.8%	374.2%	4.1%	(68.4%)
Net income (loss)		4	12	5	3	(5)
Percentage change over the previous term		-	184.1%	(58.9%)	(30.2%)	(239.9%)
Common stock		1,000	1,000	1,000	1,000	1,000
Sum of shares issued		2 mil. shares	2 mil. shares	2 mil. shares	2 mil. shares	2 mil. shares
Net assets		1,614	1,617	1,633	1,634	1,631
Total assets		955,968	1,015,053	1,092,272	1,154,108	509,274
Underwriting reserves		515,586	545,255	585,820	515,981	430,477
Percentage change over the previous term		5.0%	5.8%	7.4%	(11.9%)	(16.6%)
Of the balance, risk reserve balance		433,841	460,081	496,708	424,401	331,275
Percentage change over the previous term		5.2%	6.0%	8.0%	(14.6%)	(21.9%)
Loans		-	-	-	-	-
Percentage change over the previous term		-	-	-	-	-
Securities		895,513	953,118	1,006,947	805,223	448,120
Percentage change over the previous term		5.1%	6.4%	5.6%	(20.0%)	(44.3%)
Non-consolidated solvency-margin ratio		185.4%	159.1%	161.6%	124.7%	120.8%
Dividend propensity		-%	-%	-%	-%	-%
No. of employees		24	28	26	25	26

### Note:

To achieve the stricter application of risk measurement and meet other goals, laws and regulations associated with the calculation of the non-consolidated solvency-margin ratio have been revised since the end of fiscal 2011 (March 31, 2012). Order to specify divisions, provided for in Paragraph 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. For details, see p. 38 Conditions of non-consolidated solvency margin ratio.

## SUMMARY OF OPERATIONS

Item: earthquake

### ① Indicators relating to insurance underwriting

#### 1. Net premiums written

(Unit: Million yen)

Division	Fiscal Year	2009	2010	2011
Premiums written		151,353	152,182	171,223
Return premiums		2,464	2,324	2,504
Assumed net premiums written (A)		148,349	149,634	168,676
Reinsurance premiums ceded (B)		76,123	78,102	85,005
Net premiums written (A-B)		72,225	71,532	83,671

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

Division	Fiscal Year	2009	2010	2011
Domestic contract		100%	100%	100%

#### 3. Net claims paid

(Unit: Million yen)

Division	Fiscal Year	2009	2010	2011
Assumed net claims paid (A)		5,544	1,033	1,240,600
Reinsurance claims recovered (B)		-	-	1,043,975
Net claims paid (A-B)		5,544	1,033	196,625

### Notes:

- Assumed net claims paid: Produced by deducting surrender value from ceded insurance claims paid.
- 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	2009	2010	2011
Loss ratio	8.6%	1.8%	282.9%
Underwriting expenses	31,381	31,740	35,677
Insurance related operating, general and administrative expenses	509	503	551
Agency commissions and brokerage fees	30,872	31,236	35,126
Net expense ratio	43.4%	44.4%	42.6%
Combined ratio	52.0%	46.2%	325.5%

##### 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 damage occurrence, the expenses ratio and rate of sum total before ceded insurance deduction

Nothing is to be mentioned.

#### 6. Changes in ordinary income or loss against a rise in the loss rate

There are no changes in ordinary income or loss in earthquake insurance because increases in insurance payments are set off through the reversal of underwriting reserves in accordance of the principle of no loss and no profit.

#### 7. Underwriting profit

(Unit: Million yen)

Division \ Fiscal Year	2009	2010	2011
Underwriting income	79,278	148,490	272,727
Underwriting expenses	77,828	147,002	271,872
Operating and general administrative expenses	509	503	551
Other income and expenses	(941)	(984)	(303)
Underwriting profit	-	-	-

##### Notes:

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

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

Division \ Fiscal Year	2009	2010	2011
No. of reinsurers that ceded insurance contracts	17	15	14
Rate of top five reinsurers' ceded insurance premiums	77.5%	81.9%	81.8%

##### Note:

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

#### 9. Ratio of ceded insurance premiums by rating

Nothing is to be mentioned.

#### 10. Contractor dividend

Nothing is to be mentioned.

#### 11. Conditions at the end of the current fiscal year (runoff result) of outstanding claims (estimated amount) at the beginning of the term

Not applicable to earthquake insurance.

#### 12. Amount of estimated final damages associated with the elapse of a period from the occurrence of accidents

Not applicable to earthquake insurance.

## ② 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 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. Total assets and investments assets

(Unit: Million yen)

Division	Year	As of the end of		As of the end of			
		fiscal 2009	fiscal 2010	fiscal 2010	fiscal 2011		
		Percentage distribution (%)	Percentage distribution (%)	Percentage distribution (%)	Percentage distribution (%)		
Deposits		22,352	2.0	10,409	0.9	17,190	3.4
Call loans		28,254	2.6	319,586	27.7	30,105	5.9
Monetary receivable bought		-	-	-	-	-	-
Money trusts		13,692	1.3	-	-	-	-
Securities		1,006,947	92.2	805,223	69.8	448,120	88.0
Buildings		40	0.0	37	0.0	35	0.0
Total of investments assets		1,071,286	98.1	1,135,256	98.4	495,450	97.3
Total assets		1,092,272	100.0	1,154,108	100.0	509,274	100.0

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

(Unit: Million yen)

Division	Fiscal Year	2009		2010		2011	
		Yield (%)	Yield (%)	Yield (%)	Yield (%)	Yield (%)	Yield (%)
Deposits		219	0.61	169	0.45	83	0.69
Call loans		11	0.07	20	0.06	46	0.05
Monetary receivables bought		-	-	-	-	-	-
Money trusts		86	0.63	50	0.40	-	-
Securities		16,991	1.76	15,734	1.55	6,983	1.43
Buildings		-	-	-	-	-	-
Total		17,309	1.67	15,975	1.46	7,113	1.20

**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	2010			2011		
		Amount of numerator	Amount of denominator	Yield on working assets (%)	Amount of numerator	Amount of denominator	Yield on working assets (%)
Deposits		169	37,412	0.45	83	12,074	0.69
Call loans		20	35,101	0.06	46	94,217	0.05
Monetary receivables bought		-	-	-	-	-	-
Money trusts		(218)	12,604	(1.73)	-	-	-
Securities		15,676	1,011,852	1.55	9,127	488,267	1.87
Public and corporate bonds		6,121	589,258	1.04	3,253	273,696	1.19
Stocks		-	-	-	-	-	-
Foreign securities		9,898	419,477	2.36	5,874	214,570	2.74
Other securities		(343)	3,116	(11.01)	-	-	-
Loans		-	-	-	-	-	-
Buildings		-	40	-	-	37	-
Financial derivative		17,035	-	-	8,358	-	-
Others		(19,572)	-	-	(10,599)	-	-
Total		13,112	1,097,011	1.20	7,016	594,596	1.18

**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	2010			2011		
		Amount of numerator	Amount of denominator	Yield on working assets (%)	Amount of numerator	Amount of denominator	Yield on working assets (%)
Deposits		169	37,412	0.45	83	12,074	0.69
Call loans		20	35,101	0.06	46	94,217	0.05
Monetary receivables bought		-	-	-	-	-	-
Money trusts		(160)	12,546	(1.28)	-	-	-
Securities		7,870	1,028,090	0.77	5,349	496,699	1.08
Public and corporate bonds		3,563	595,176	0.60	1,821	277,057	0.66
Stocks		-	-	-	-	-	-
Foreign securities		4,385	430,061	1.02	3,527	219,641	1.61
Other securities		(78)	2,852	(2.77)	-	-	-
Loans		-	-	-	-	-	-
Buildings		-	40	-	-	37	-
Financial derivative		17,035	-	-	8,358	-	-
Others		(19,572)	-	-	(10,599)	-	-
Total		5,364	1,113,191	0.48	3,237	603,029	0.54

### 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 2009		As of the end of fiscal 2010		As of the end of fiscal 2011	
		Percentage distribution (%)	Percentage distribution (%)	Percentage distribution (%)	Percentage distribution (%)		
Foreign currency denominated							
Foreign public and corporate bonds		270,894	63.6	152,723	48.4	55,435	35.1
Yen denominated							
Foreign public and corporate bonds		154,918	36.4	162,901	51.6	102,638	64.9
Total		425,813	100.0	315,624	100.0	158,073	100.0
Yield on foreign loans & investments							
Investment assets yield (income yield)		2.80%		2.41%		2.19%	
Assets management (realized yield)		2.88%		2.36%		2.74%	
Market-price based overall yield (for reference)		5.30%		1.02%		1.61%	

### 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 investments.

### ③ Conditions of non-consolidated solvency-margin ratio

(Unit: Million yen)

Division	Year	As of the end of fiscal 2010 (Previous standards)	As of the end of fiscal 2011 (Current standards)	(Reference) As of the end of fiscal 2010 (Current standards)
Total amount of non-consolidated solvency-margin		430,847	336,562	430,847
Common stock, etc.		1,620	1,615	1,620
Price fluctuation reserves		5	6	5
Risk reserves		-	-	-
Catastrophe reserves		424,401	331,275	424,401
Reserves for ordinary bad debts		-	-	-
Unrealized gain / loss on available-for-sale securities (excluded deductions for Tax Consequences)		4,464	3,390	4,464
Unrealized gain and loss included land holdings		-	-	-
Surplus such as premium reserves		-	-	-
Funding instruments with a debt-like nature		-	-	-
Surplus such as premium reserves and funding instruments with a debt-like nature that are not included in the margin		-	-	-
Items deductible		-	-	-
Others		354	275	354
Total amount of non-consolidated risk $\sqrt{(R1 + R2)^2 + (R3 + R4)^2} + R5 + R6$		690,852	557,215	700,369
General underwriting risk (R1)		-	-	-
Underwriting risk in third-area insurance (R2)		-	-	-
Anticipated rate of return risk (R3)		-	-	-
Investment risk (R4)		8,692	9,839	18,022
Management risk (R5)		13,546	10,925	13,732
Catastrophe risk (R6)		668,614	536,450	668,614
Non-consolidated solvency-margin ratio $\frac{(A)}{\{(B) \times 1 / 2\}} \times 100$		124.7%	120.8%	123.0%

#### 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. Figures under the "Current standards" reflected the revisions in the Cabinet Ordinance No. 23, 2010, the Cabinet Ordinance No. 11, 2011, the Notification of the Financial Services Agency No. 48, 2010, the Notification of the Financial Services Agency No. 24, 2011, and the Notification of the Financial Services Agency No. 33, 2012 (applicable from March 31, 2012), and those under "Previous standards" are those before the revisions were taken into account.

#### Non-consolidated 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 non-consolidated 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 amount of non-consolidated solvency-margin) is the total of capital owned by a non-life insurance company, various reserves (price fluctuation reserve, catastrophe reserve, etc.), 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 Paragraph 4, Article 3, Order to specify the division stated in Paragraph 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 Paragraph 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.]



# ACCOUNTING CONCEPTS

## ① Financial Statements

### 1. Balance sheets

#### (ASSETS)

Item	(Unit: Million yen)			
	2010 (As of March 31, 2011)		2011 (As of March 31, 2012)	
	Amount	Percentage distribution (%)	Amount	Percentage distribution (%)
<b>Cash &amp; deposits</b>	<b>10,409</b>	<b>0.9</b>	<b>17,190</b>	<b>3.4</b>
Deposits	10,409		17,190	
<b>Call loans</b>	<b>319,586</b>	<b>27.7</b>	<b>30,105</b>	<b>5.9</b>
<b>Securities</b>	<b>805,223</b>	<b>69.8</b>	<b>448,120</b>	<b>88.0</b>
Government bonds	414,095		248,634	
Corporate bonds	75,503		41,411	
Foreign securities	315,624		158,073	
<b>Tangible fixed assets</b>	<b>52</b>	<b>0.0</b>	<b>43</b>	<b>0.0</b>
Buildings	37		35	
Other tangible fixed assets	14		8	
<b>Intangible fixed assets</b>	<b>253</b>	<b>0.0</b>	<b>175</b>	<b>0.0</b>
Software	253		175	
Other intangible fixed assets	0		0	
<b>Other assets</b>	<b>18,512</b>	<b>1.6</b>	<b>13,563</b>	<b>2.7</b>
Reinsurance balance receivable	8,416		9,671	
Accounts receivable	3,720		170	
Uncollected income	3,662		1,563	
Deposits	52		52	
Suspense payment	73		26	
Financial derivative	2,466		2,051	
Other assets	119		28	
<b>Deferred tax assets</b>	<b>71</b>	<b>0.0</b>	<b>75</b>	<b>0.0</b>
<b>Total assets</b>	<b>1,154,108</b>	<b>100.0</b>	<b>509,274</b>	<b>100.0</b>

#### (LIABILITIES)

Item	(Unit: Million yen)			
	2010 (As of March 31, 2011)		2011 (As of March 31, 2012)	
	Amount	Percentage distribution (%)	Amount	Percentage distribution (%)
<b>Underwriting funds</b>	<b>630,899</b>	<b>54.7</b>	<b>445,372</b>	<b>87.5</b>
Outstanding claims	114,918		14,895	
Underwriting reserves	515,981		430,477	
<b>Entrusted reserves</b>	<b>500,250</b>	<b>43.3</b>	<b>49,065</b>	<b>9.6</b>
<b>Other liabilities</b>	<b>12,772</b>	<b>1.1</b>	<b>8,429</b>	<b>1.7</b>
Reinsurance balance payable	5,632		6,406	
Corporate taxes payable	601		127	
Deposits payable	3		4	
Accrued amounts payable	999		758	
Financial derivative	5,535		1,130	
<b>Accrued severance benefits</b>	<b>102</b>	<b>0.0</b>	<b>104</b>	<b>0.0</b>
<b>Reserves for directors' retirement benefit</b>	<b>15</b>	<b>0.0</b>	<b>15</b>	<b>0.0</b>
<b>Reserves for bonus payment</b>	<b>17</b>	<b>0.0</b>	<b>19</b>	<b>0.0</b>
<b>Reserves under the special law</b>	<b>5</b>	<b>0.0</b>	<b>6</b>	<b>0.0</b>
Price fluctuation reserves	5		6	
<b>Net unrealized gains on available-for-sale securities of earthquake insurance</b>	<b>8,410</b>	<b>0.7</b>	<b>4,630</b>	<b>0.9</b>
<b>Total liabilities</b>	<b>1,152,474</b>	<b>99.9</b>	<b>507,643</b>	<b>99.7</b>

#### (NET ASSETS)

Item	(Unit: Million yen)			
	2010 (As of March 31, 2011)		2011 (As of March 31, 2012)	
	Amount	Percentage distribution (%)	Amount	Percentage distribution (%)
<b>Common stock</b>	<b>1,000</b>	<b>0.1</b>	<b>1,000</b>	<b>0.2</b>
<b>Retained earnings</b>	<b>625</b>	<b>0.1</b>	<b>620</b>	<b>0.1</b>
Legal reserve of retained earnings	1		1	
Other legal reserve of retained earnings	624		619	
Special reserves	17		17	
Special price fluctuation reserves	39		39	
Retained earnings brought forward	568		563	
<b>Treasury Stock</b>	<b>(5)</b>	<b>(0.0)</b>	<b>(5)</b>	<b>(0.0)</b>
<b>Total shareholders' equity</b>	<b>1,620</b>	<b>0.1</b>	<b>1,615</b>	<b>0.3</b>
<b>Net unrealized gain on available-for-sale securities</b>	<b>14</b>	<b>0.0</b>	<b>16</b>	<b>0.0</b>
<b>Total valuation and translation adjustments</b>	<b>14</b>	<b>0.0</b>	<b>16</b>	<b>0.0</b>
<b>Total net assets</b>	<b>1,634</b>	<b>0.1</b>	<b>1,631</b>	<b>0.3</b>
<b>Total liabilities and net assets</b>	<b>1,154,108</b>	<b>100.0</b>	<b>509,274</b>	<b>100.0</b>

#### Notes for fiscal 2011

- Appraisal standards and method of securities, and method of indication
  - Of available-for-sale securities, those to which the market price is applicable is appraised according to the market price at term end.
  - 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.
  - 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.
- The appraisal of derivatives is done on the basis of market price.
- 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.

4. 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).
5. The conversion of foreign currency assets and liabilities into Japanese currency is processed according to the accounting standards for foreign currency transactions.

6. Writing standards of reserves

(1) Reserve for bad debts

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

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

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

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

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

(2) Reserves for employees' retirement

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

(3) Reserves for directors' retirement benefit

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

(4) Accrued bonuses for employees

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

(5) Reserves for price fluctuation

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

7. 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.

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, 2012.

(Unit: Million yen)

	Balance sheet amount	Fair value	Difference
(i) Cash & deposits	17,190	17,190	-
(ii) Call loans	30,105	30,105	-
(iii) Securities	448,120	448,120	-
Available-for-sale securities			
(iv) Derivatives*	921	921	-

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

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

- (i) Cash & deposits  
Fair values of cash & deposits are deemed equal to their carrying values as their fair values and carrying values are similar.
- (ii) Call loans  
Call loans are settled in the short term, and their fair values are therefore deemed equal to their carrying values.
- (iii) 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.
- (iv) 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. As a result of the issuance of the Partial Amendments to the Enforcement Regulations of the Law Concerning Earthquake Insurance (the Ordinance of the Ministry of Finance No. 37, March 31, 2012), loss adjustment expenses incurred for finalizing the amount of insurance claims were withdrawn from risk reserves.

11. The accumulated depreciation of tangible fixed assets is 155 million yen.

12. See below for a breakdown of outstanding claims.

(Unit: Million yen)	
Outstanding claims (before the deduction of outstanding reinsurance claims)	26,366
Outstanding reinsurance claims related to the above claims	11,471
Net outstanding claims	14,895

13. Total deferred tax assets amount to 88 million yen, while total deferred tax liabilities come to 7 million yen. The amount deducted from deferred tax assets as a valuation reserve is 4 million yen. The breakdown of deferred tax assets reveals unpaid business taxes of 24 million yen, unpaid special local corporate tax of 18 million yen, a retirement benefit reserve of 32 million yen, a bonus reserve of 6 million yen and price fluctuation reserve of 1 million yen. The deferred tax liabilities result primarily from an unrealized gain of 7 million yen on securities.

14. Amendments to deferred tax assets, deferred tax liabilities, and other items as a result of changes in corporate tax rates are as follows.

Starting from the fiscal years which begin on or after April 1, 2012, corporate tax rates will be lowered and special reconstruction corporate taxes will be applied, following the issuance of a corpo-

rate tax law partial amendment to develop a tax system that responds to changes in the structure of economic society (Statute no. 114 of 2011) and a reconstruction funding law in the aftermath of the Great East Japan Earthquake (Statute no. 117 of 2011) on December 2, 2011.

As a result, legal effective tax rates that are used to calculate deferred tax assets and deferred tax liabilities will be 33.33% for temporary differences that are expected to be eliminated during each of the fiscal years starting between April 1, 2012 and April 1, 2014, and 30.78% for temporary differences that are expected to be eliminated in each of the fiscal years starting from April 1, 2015, compared with the current 36.21%. As a result of these changes in tax rates, deferred tax assets (after the deduction of deferred tax liabilities) fell 8 million yen, and income taxes – deferred increased 10 million yen, while net income declined 10 million yen.

15. Net assets per share are 820.30 yen. The basis for this calculation is that net assets are 1,631 million yen, net assets accrued from ordinary shares are 1,631 million yen and the number of ordinary shares at the end of the term is 1.988 million.

16. No events that could significantly affect assets or income or loss for the next fiscal years and beyond have taken place since the last day of the fiscal year under review.

17. Additional information

The Company has applied the Accounting Standard for Accounting Changes and Error Corrections (ASBJ Statement No. 24; December 4, 2009) and the Guidance on Accounting Standard for Accounting Changes and Error Corrections (ASBJ Guidance No. 24; December 4, 2009) as a result of accounting changes and error corrections executed from the beginning of the fiscal year under review.

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

## 2. Statements of income

Item	(Unit: Million yen)	
	Fiscal Year	
	2010 (from April 1, 2010 to March 31, 2011)	2011 (from April 1, 2011 to March 31, 2012)
	Amount	Amount
<b>Ordinary income</b>	<b>175,903</b>	<b>287,036</b>
<b>Underwriting income</b>	<b>148,490</b>	<b>272,727</b>
Net premiums written	71,532	83,671
Investment income on savings premiums	7,118	3,528
Reversal of outstanding claims	-	100,023
Reversal of underwriting reserves	69,839	85,503
<b>Investment income</b>	<b>27,413</b>	<b>14,309</b>
Interest and dividend income	15,924	7,113
Investment gains on money trust	50	-
Gains on sales of securities	1,501	2,364
Gains on derivatives	17,035	8,358
Other investment income	19	1
Transfer of profit from Investment income on savings premiums	(7,118)	(3,528)
<b>Other ordinary income</b>	<b>0</b>	<b>-</b>
<b>Ordinary expenses</b>	<b>174,913</b>	<b>286,723</b>
<b>Underwriting expenses</b>	<b>147,002</b>	<b>271,872</b>
Net claims paid	1,033	196,625
Loss adjustment expenses	235	40,121
Agency commissions and brokerage fees	31,236	35,126
Provision for outstanding claims	114,497	-
<b>Investment expenses</b>	<b>21,419</b>	<b>10,821</b>
Investment losses on money trust	268	-
Losses on sales of securities	1,558	220
Foreign exchange losses	19,523	10,553
Other investment expenses	68	48
<b>Operating, general and administrative expenses</b>	<b>1,013</b>	<b>1,074</b>
<b>Other ordinary expenses</b>	<b>5,477</b>	<b>2,954</b>
Interest paid	5,477	2,954
<b>Ordinary profit</b>	<b>990</b>	<b>312</b>
<b>Extraordinary income</b>	<b>1</b>	<b>-</b>
Reversal of price fluctuation reserves	1	-
<b>Extraordinary losses</b>	<b>-</b>	<b>0</b>
Losses on disposal fixed assets	-	0
Provision for price fluctuation reserves	-	0
<b>Income before taxes</b>	<b>992</b>	<b>312</b>
<b>Income taxes - current</b>	<b>982</b>	<b>320</b>
<b>Income taxes - deferred</b>	<b>6</b>	<b>(3)</b>
<b>Total income taxes</b>	<b>988</b>	<b>317</b>
<b>Net income (loss)</b>	<b>3</b>	<b>(5)</b>

## Notes for fiscal 2011

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

(Unit: Million yen)	
Premiums written:	168,676
Reinsurance premiums ceded:	85,005
Net premiums written:	83,671

2. See below for a breakdown of net claims paid.

(Unit: Million yen)	
Claims paid:	1,240,600
Claims recovered:	1,043,975
Net claims paid:	196,625

3. See below for a breakdown of provisions for outstanding claims (figures in parentheses are the reversal of outstanding claims).

(Unit: Million yen)	
Provisions for outstanding claims (before the deduction of outstanding reinsurance claims)	(211,604)
Provision for outstanding reinsurance claims related to the above claims	(111,581)
Net provision for outstanding claims	(100,023)

4. The interest and dividend income are given below by category:

(Unit: Million yen)	
Deposits:	83
Call loans:	46
Securities:	6,983
Total:	7,113

5. Paper profit/loss involved in the gains on derivatives is a profit of 921 million yen.

6. The net loss per share is 2.52 yen.

The basis for this calculation is such that the net loss is 5 million yen, the net loss accrued from ordinary shares is 5 million yen and the term average No. of ordinary shares amount to 1.988 million.

7. 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 101.61%. The difference is explained by the following breakdown: the non-deductible amount of the taxable provision of risk reserves is 76.09%, the amount of the write-off carried from publicity expenses related to risk reserves is (14.21%).

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

### 3. Statements of cash flow

Item	(Unit: Million yen)		
	Fiscal Year	2010 (from April 1, 2010 to March 31, 2011)	2011 (from April 1, 2011 to March 31, 2012)
	Amount	Amount	
<b>Cash flow from operating activities</b>			
Net income before income taxes	992	312	
Depreciation	96	95	
Changes in outstanding claims	114,497	(100,023)	
Changes in underwriting reserves	(69,839)	(85,503)	
Changes in entrusted reserves	27,043	(451,185)	
Changes in reserves for employees' retirement and severance benefits	(7)	2	
Changes in directors' retirement benefit reserves	2	(0)	
Changes in accrued bonuses for employees	(1)	1	
Changes in reserve for price fluctuation	(1)	0	
Interest and dividend income	(15,924)	(7,113)	
Losses on investment in securities	57	(2,143)	
Foreign exchange losses	666	(2,262)	
Losses on tangible fixed assets	-	0	
Decrease in other assets (other than investment and financial activities related)	(3,453)	2,342	
Increase in other liabilities (other than investment and financial activities related)	(18)	534	
Others	2,255	(3,955)	
Subtotal	56,363	(648,897)	
Interest and dividends received	17,526	9,331	
Income taxes paid	(1,326)	(828)	
Net cash provided by operating activities	72,562	(640,394)	
<b>Cash flow from investing activities</b>			
Net decrease in deposits at bank	12,800	(8,000)	
Proceeds from Decrease in Money Held in Trust	13,750	-	
Purchase of securities	(443,199)	(237,033)	
Proceeds from sales and redemption of securities	636,394	594,644	
Others	(119)	91	
Total investment assets activities	219,626	349,702	
Total operating activities and investment assets activities	292,189	(290,691)	
Acquisition of tangible fixed assets	-	(4)	
Others	-	(4)	
Net cash provided by investing activities	219,626	349,693	
<b>Cash flow in financing activities</b>			
Effect of exchange rate changes on cash and cash equivalents	-	-	
Net change in cash and cash equivalents	292,189	(290,700)	
Cash and cash equivalents at the beginning of the year	30,306	322,495	
Cash and cash equivalents at the end of the year	322,495	31,795	

### Notes

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

Item	(Unit: Million yen)	
	(As of March 31, 2011)	(As of March 31, 2012)
Cash & deposits	10,409	17,190
Call loans	319,586	30,105
Securities	805,223	448,120
Deposits of a depository period of three months or longer	(7,500)	(15,500)
Securities other than cash equivalent	(805,223)	(448,120)
Cash and cash equivalents	322,495	31,795

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	(Unit: Million yen)		
	Fiscal Year	2010 (from April 1, 2010 to March 31, 2011)	2011 (from April 1, 2011 to March 31, 2012)
	Amount	Amount	
<b>Shareholder's equity</b>			
<b>Common stock</b>			
Balance at the start of the period	1,000	1,000	
Changes during the period			
Issuance of new stocks	-	-	
Total changes	-	-	
Balance at the end of the period	1,000	1,000	
<b>Retained earnings</b>			
<b>Legal reserve of retained earnings</b>			
Balance at the start of the period	1	1	
Changes during the period			
Dividends of surplus	-	-	
Total changes	-	-	
Balance at the end of the period	1	1	
<b>Other legal reserve of retained earnings</b>			
<b>Special reserves</b>			
Balance at the start of the period	17	17	
Changes during the period			
Total changes	-	-	
Balance at the end of the period	17	17	
<b>Special price fluctuation reserves</b>			
Balance at the start of the period	39	39	
Changes during the period			
Total changes	-	-	
Balance at the end of the period	39	39	
<b>Retained earnings brought forward</b>			
Balance at the start of the period	564	568	
Changes during the period			
Dividends of surplus	-	-	
Net income (loss)	3	(5)	
Total changes	3	(5)	
Balance at the end of the period	568	563	

(Unit: Million yen)

Item	Fiscal Year	2010	2011
		(from April 1, 2010 to March 31, 2011)	(from April 1, 2011 to March 31, 2012)
		Amount	Amount
<b>Total retained earnings</b>			
Balance at the start of the period		622	625
Changes during the period			
Dividends of surplus		-	-
Net income (loss)		3	(5)
Total changes		3	(5)
Balance at the end of the period		625	620
<b>Treasury stock</b>			
Balance at the start of the period		(5)	(5)
Changes during the period			
Disposal of treasury stock		-	-
Total changes		-	-
Balance at the end of the period		(5)	(5)
<b>Total shareholders' equity</b>			
Balance at the start of the period		1,616	1,620
Changes during the period			
Issuance of new stocks		-	-
Dividends of surplus		-	-
Net income (loss)		3	(5)
Disposal of treasury stock		-	-
Total changes		3	(5)
Balance at the end of the period		1,620	1,615
<b>Valuation and translation adjustments</b>			
<b>Net unrealized gains on available-for-sale securities</b>			
Balance at the start of the period		16	14
Changes during the period			
Net changes other than shareholders' equity		(2)	2
Total changes		(2)	2
Balance at the end of the period		14	16
<b>Total valuation and translation adjustments</b>			
Balance at the start of the period		16	14
Changes during the period			
Net changes other than shareholders' equity		(2)	2
Total changes		(2)	2
Balance at the end of the period		14	16
<b>Total net assets</b>			
Balance at the start of the period		1,633	1,634
Changes during the period			
Issuance of new stocks		-	-
Dividends of surplus		-	-
Net income (loss)		3	(5)
Disposal of treasury stock		-	-
Net changes other than shareholders' equity		(2)	2
Total changes		0	(3)
Balance at the end of the period		1,634	1,631

**Notes:**

1. Matters related to the types and total number of stocks outstanding and the types and number of treasury stock

(Unit: Stock)

Item	Type	Balance as of the end of fiscal 2010	Increase in fiscal 2011	Decrease in fiscal 2011	Balance as of the end of fiscal 2011
		Issued stock	Ordinary stock	2,000,000	-
	Total	2,000,000	-	-	2,000,000
Treasury stock	Ordinary stock	11,400	-	-	11,400
	Total	11,400	-	-	11,400

2. Matters related to stock options or own stock options  
Not applicable.

3. Matters related to dividends  
Not applicable.

**5. Dividend per stock and total assets per employee**

(Unit: Million yen)

Division	Fiscal Year		
	2009	2010	2011
Dividend per stock	-	-	-
Net income (loss) per stock	2.58 yen	1.80 yen	(2.52 yen)
Dividend propensity	-	-	-
Net assets per stock	821.32 yen	821.81 yen	820.30 yen
Total assets per employee	42,010	46,164	19,587

**Notes:**

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

## ② Details of Assets and Liabilities

### 1. Deposits

(Unit: Million yen)				
Year	As of the end of fiscal 2009	As of the end of fiscal 2010	As of the end of fiscal 2011	
Division				
Deposits	22,352	10,409	17,190	
Ordinary deposits	2,052	2,909	1,690	
Time deposits	20,300	7,500	15,500	

### 2. Average balance and trading amount of commodity securities

There are no notes.

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

(Unit: Million yen)						
Year	As of the end of fiscal 2009	As of the end of fiscal 2010	As of the end of fiscal 2011			
Division	Percentage distribution (%)	Percentage distribution (%)	Percentage distribution (%)			
Government bonds	457,324	45.4	414,095	51.4	248,634	55.5
Municipal bonds	80	0.0	-	-	-	-
Corporate bonds	120,593	12.0	75,503	9.4	41,411	9.2
Stocks	-	-	-	-	-	-
Foreign securities	425,813	42.3	315,624	39.2	158,073	35.3
Other securities	3,135	0.3	-	-	-	-
Loan receivable in securities	-	-	-	-	-	-
Total	1,006,947	100.0	805,223	100.0	448,120	100.0

### 4. Yield on securities held

(Unit: %)				
Division	Fiscal Year	2009	2010	2011
Investment assets yield (income yield)				
Public & corporate bonds		0.99	0.95	0.83
Stocks		-	-	-
Foreign securities		2.80	2.41	2.19
Other securities		-	-	-
Total		1.76	1.55	1.43
Assets management yield (realized yield)				
Public & corporate bond		0.99	1.04	1.19
Stocks		-	-	-
Foreign securities		2.88	2.36	2.74
Other securities		(3.60)	(11.01)	-
Total		1.76	1.55	1.87
Market-price based overall yield (for reference)				
Public & Corporate bonds		1.49	0.60	0.66
Stocks		-	-	-
Foreign securities		5.30	1.02	1.61
Other securities		(2.73)	(2.77)	-
Total		3.08	0.77	1.08

**Note:**

Public & corporate bonds include government bonds, municipal bonds, and corporate bonds.

## 5. Balance Current Maturity of securities by category

### As of the end of fiscal 2010

(Unit: Million yen)							
Division	Up to 1 year	1 over up to 3 years	3 over up to 5 years	5 over up to 7 years	7 over up to 10 years	Over 10 years	Total
Government bonds	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

### As of the end of fiscal 2011

(Unit: Million yen)							
Division	Up to 1 year	1 over up to 3 years	3 over up to 5 years	5 over up to 7 years	7 over up to 10 years	Over 10 years	Total
Government bonds	150,938	32,443	23,374	16,351	24,495	1,031	248,634
Municipal bonds	-	-	-	-	-	-	-
Corporate bonds	21,647	18,153	104	1,506	-	-	41,411
Stocks	-	-	-	-	-	-	-
Foreign securities	45,197	64,219	36,307	12,350	-	-	158,073
Other securities	-	-	-	-	-	-	-
Loan receivable in securities	-	-	-	-	-	-	-
Total	217,783	114,815	59,786	30,208	24,495	1,031	448,120

### 6. Amount of stocks held by type of business

There are no stocks.

### 7. Loans

There are no notes with the following items; amount of stocks held by type of business, balance current maturity of loan by remaining life, balance of loans by type of collateral secured, balance and percentage distribution of loan by designated use, balance of loan by industry and its ratio to the total, and balance of amortization of loans.

### 8. Risk management credits

There are no notes.

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

No notes are required.

## 10. Self-appraisal of assets

The Company categorizes assets in accordance with the level of risk associated with collection and the level of risk of a loss in the value by carrying out self-appraisal and individually examining holding assets. There were no category assets (II through IV categories) as at the end of March 2012.

## 11. Tangible fixed assets by category

(Unit: Million yen)

Division	Year	As of the end of fiscal 2009	As of the end of fiscal 2010	As of the end of fiscal 2011
Land		-	-	-
for underwriting		-	-	-
for investment		-	-	-
Buildings		40	37	35
for underwriting		40	37	35
for investment		-	-	-
Construction in progress		-	-	-
for underwriting		-	-	-
for investment		-	-	-
Total of property		40	37	35
for underwriting		40	37	35
for investment		-	-	-
Other tangible fixed assets		26	14	8
Total		67	52	43

## 12. Unearned claims paid

There are no notes.

## 13. Special account

Nothing is to be mentioned.

## 14. Amounts of outstanding claims and underwriting reserves

(Unit: Million yen)

Division	Year	As of the end of fiscal 2009	As of the end of fiscal 2010	As of the end of fiscal 2011
Outstanding claims		420	114,918	14,895
Underwriting reserves		585,820	515,981	430,477
Risk reserves		496,708	424,401	331,275
Unearned premium reserves		87,453	90,054	97,686
Repayment reserves		1,659	1,524	1,514
Total		586,241	630,899	445,372

## 15. Level of underwriting reserves

There is no target contact.

## 16. Detailed listing of liability reserves

### As of the end of Fiscal 2010

(Unit: Million yen)

Division	Balance as of the end of fiscal 2009	Increase in fiscal 2010	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 payments	18	17	18	17
Reserve for price fluctuation	7	-	1	5
Total	150	42	50	141

### As of the end of Fiscal 2011

(Unit: Million yen)

Division	Balance as of the end of fiscal 2010	Increase in fiscal 2011	Decrease in fiscal 2011	Balance as of the end of fiscal 2011
Reserve for ordinary bad debts	-	-	-	-
Reserve for individual bad debts	-	-	-	-
Reserve for specific foreign securities	-	-	-	-
Accrued severance benefits	102	18	15	104
Reserve for directors' retirement allowances	15	4	4	15
Reserve for bonus payments	17	19	17	19
Reserve for price fluctuation	5	0	-	6
Total	141	41	37	146

## 17. Detailed listing of shareholders' equity

Please refer to the statement of changes in shareholders' equity on page 43.



### ③ Income and loss details

#### 1. Gains on sales of securities by category

(Unit: Million yen)

Division	Fiscal Year	2009	2010	2011
Government bonds		7	1,092	1,116
Foreign securities		574	408	1,247
Total		582	1,501	2,364

#### 2. Losses on sales of securities by category

(Unit: Million yen)

Division	Fiscal Year	2009	2010	2011
Government bonds		329	920	145
Foreign securities		232	638	75
Total		562	1,558	220

#### 3. Securities appraisal loss by category

Not applicable.

#### 4. Gains on disposal of fixed assets

Not applicable.

#### 5. Losses on disposal of fixed assets

(Unit: Million yen)

Division	Fiscal Year	2009	2010	2011
Land		-	-	-
Buildings		0	-	-
Other tangible fixed assets		-	-	0
Total		0	-	0

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

(Unit: Million yen)

Division	Fiscal Year	2009	2010	2011
Personnel expenses		378	350	11,636
Non personnel expenses		1,085	702	29,330
Taxes		197	196	228
Agency commissions and brokerage fees		30,872	31,236	35,126
Total		32,534	32,485	76,322

**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.

### 7. Depreciation expenses by category

#### As of the end of Fiscal 2010

(Unit: Million yen)

Type of asset	Acquisition cost	Depreciation in fiscal 2010	Aggregated depreciations	Balance as the end of fiscal 2010	Rate of aggregated depreciations %
<b>Tangible fixed assets</b>					
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
<b>Intangible fixed assets</b>					
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

#### As of the end of Fiscal 2011

(Unit: Million yen)

Type of asset	Acquisition cost	Depreciation in fiscal 2011	Aggregated depreciations	Balance as the end of fiscal 2011	Rate of aggregated depreciations %
<b>Tangible fixed assets</b>					
Buildings	101	2	65	35	65.0
for underwriting	101	2	65	35	65.0
for investment	-	-	-	-	-
Others	94	10	89	8	91.6
Total	196	13	155	43	78.1
<b>Intangible fixed assets</b>					
Software	407	82	236	175	57.3
Other intangible fixed assets	0	0	0	0	95.6
Total	407	82	236	175	57.4
Grand total	603	95	391	219	64.1

#### 4 Information about fair values, etc.

##### 1. Matters related to financial instruments

For matters related to the status of financial instruments and matters related to the fair values of financial instruments, please refer to Note 8 to the balance sheet (page 40).

##### 2. Securities

###### (i) Securities held for trading purposes

Not applicable.

###### (ii) Securities to be held to maturity

Not applicable.

###### (iii) Available-for-sale securities

###### 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)

###### At the end of fiscal 2011

(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	194,534	196,554	2,020
	Stocks	-	-	-
	Foreign securities	93,178	94,842	1,663
	Others	-	-	-
	Subtotal	287,712	291,396	3,683
Securities with acquisition cost not higher than that posted on the balance sheet	Public & corporate bonds	93,582	93,491	(90)
	Stocks	-	-	-
	Foreign securities	73,135	63,231	(9,903)
	Others	-	-	-
	Subtotal	166,717	156,723	(9,994)
Total		454,430	448,120	(6,310)

###### (iv) Available-for-sale securities sold at the term

(Unit: Million yen)

Type	Fiscal 2010			Fiscal 2011		
	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	243,308	1,501	1,558	273,998	2,364	220

##### 3. Money trust

Not applicable

##### 4. Derivative transactions

(i) Derivatives transactions to which hedge accounting is not applied

###### (a) Currency related

###### At the end of fiscal 2010

(Unit: Million yen)

Type	Contract amount		Market price	Appraisal profit and loss
	1 year or longer ones			
Over-the-counter transactions				
Forward foreign exchange contracts				
Short positions				
US dollar	-	-	-	-
Euro	142,439	27,931	(2,938)	(2,938)
Total			(2,938)	(2,938)

###### At the end of fiscal 2011

(Unit: Million yen)

Type	Contract amount		Market price	Appraisal profit and loss
	1 year or longer ones			
Over-the-counter transactions				
Forward foreign exchange contracts				
Short positions				
US dollar	394	-	(15)	(15)
Euro	53,410	8,600	979	979
Total			963	963

###### 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

###### At the end of fiscal 2010

(Unit: Million yen)

Type	Contract amount		Market price	Appraisal profit and loss
	1 year or longer ones			
Over-the-counter transactions				
Long position in credit derivatives transactions	7,994	7,994	(130)	(130)
Total	7,994	7,994	(130)	(130)

###### At the end of fiscal 2011

(Unit: Million yen)

Type	Contract amount		Market price	Appraisal profit and loss
	1 year or longer ones			
Over-the-counter transactions				
Long position in credit derivatives transactions	3,952	3,952	(42)	(42)
Total	3,952	3,952	(42)	(42)

###### Note:

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

(ii) Derivatives transactions to which hedge accounting is applied

Not applicable

**CORPORATE DATA** (as of March 31, 2012)

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Established:	May 30, 1966
Capital:	1 billion yen
Total assets:	509.2 billion yen
No. of employees:	26
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**