2016

ANNUAL REPORT

Introduction to Earthquake Reinsurance in Japan

Japan Earthquake Reinsurance

50th YEARS Aniversary

Contents

MESSAGE FROM THE PRESIDENT

Chairman:
Yoshihiko Murase

President:
Makoto Sugimachi

My name is Makoto Sugimachi. I became President on June 30, 2016.
Let me begin by expressing my sincere gratitude to all our stakeholders for their continued support.
I would also like to extend my condolences for the victims of the 2016 Kumamoto Earthquakes and their families, and pray that the souls of the victims may rest in peace. I offer my heartfelt sympathy to all those in the disaster-hit areas and hope for a swift recovery.
Japan is one of the most active seismic and volcanic areas in the world. The country has been repeatedly hit by earthquakes, volcanic eruptions, and tsunamis.
Earthquake insurance was established in 1966 to stabilize the livelihoods of those affected by such natural disasters. An earthquake reinsurance scheme consists of three players: the government, private non-life insurance companies and Japan Earthquake Reinsurance Co., Ltd. (JER), with the public and private sectors working together to ensure that earthquake insurance claims are paid promptly and reliably.
JER was founded with the launch of the earthquake insurance system as the only company in Japan permitted to exclusively handle reinsurance for earthquake insurance covering dwelling risks and, on May 30 this year, we marked the momentous occasion of the 50th anniversary of our founding. I would like to express my gratitude to all those involved in the earthquake insurance system and our shareholders and other stakeholders for their understanding and support, without which this would not have been possible.
JER has always sought to make earthquake reinsurance payouts promptly and reliably and has consistently paid close attention to managing and operating assets for future earthquake reinsurance payouts, focusing primarily on asset liquidity and safety.
In fiscal 2015, we launched our fourth medium-term business plan “Strengthening Arrangements for Earthquake Reinsurance Payouts”. This fiscal year is the second year under the plan.
Thus far, we have worked to develop a business continuity plan (BCP) and related systems to prepare for feared large-scale earthquakes. We will now further strengthen the effectiveness of our business continuity management (BCM) in anticipation of an inland earthquake in the Tokyo Metropolitan area, in a bid to ensure our readiness for earthquake reinsurance payouts, which is our most important mission under the plan.
We will also enhance our asset management capabilities and increase our capacity to deal with financial market fluctuations, amid the continuing tough management situation globally, including negative interest rates. At the same time, we will advance integrated risk management.
Further, as management base-related measures, we will further strengthen the IT governance system and corporate governance system. We will also seek to develop and hire human resources to support the enhancement of corporate value and aim to create a rewarding and vibrant workplace.
Recognizing our social mission, we will continue striving to contribute to the development of the earthquake insurance system and, understanding our role and responsibilities, we will step up efforts to execute our duties reliably, aiming to become a company that is completely trusted by our stakeholders.
We hope that we can rely on your continued support.

July 2016

M. Sugimachi

Makoto Sugimachi
President
Japan Earthquake Reinsurance Co., Ltd.

SPECIAL FEATURE

THE EARTHQUAKE INSURANCE SYSTEM AND JER'S 50TH ANNIVERSARY

Thanks to your help, JER celebrated the 50th anniversary of its founding in May this year. JER started its operation with the launch of the earthquake insurance system and has since worked alongside this system. In commemoration of our 50th anniversary, we published our corporate history explaining the development and current status of the earthquake insurance system and JER. In this report, we would like to trace the path back to events before and after the launch of the earthquake insurance system, by citing part of our corporate history.

DEVELOPMENTS IN THE NON-LIFE INSURANCE INDUSTRY BEFORE THE ESTABLISHMENT OF THE EARTHQUAKE INSURANCE SYSTEM

With Japan's economy entering a period of high growth and its current account balance almost recovering, pressure from the West demanding that Japan commit to trade liberalization increased. In 1964, Japan accepted the obligations of Article 8 of the International Monetary Fund (IMF) agreement by removing foreign exchange and import restrictions through the balance of payments. Japan also gained membership of the Organisation for Economic Co-operation and Development (OECD) and was at the same time required to commit to the liberalization of capital.

Under such circumstances, in 1962, the Insurance Council held deliberations on improvement measures to strengthen the international competitiveness of Japan's non-life insurance companies.

In November 1962, a subcommittee under the Insurance Council examined concrete measures such as increasing the ability to cover losses, rationalizing premiums, extending coverage and establishing new lines of insurance, entering overseas markets, improving sales agencies and enhancing the reinsurance mechanism. The issue of earthquake insurance and windstorm and flood insurance was raised as one of the issues associated with extending coverage.

In response to this, at a meeting of the subcommittee held the following month, the Chairman of the General Insurance Association of Japan, who attended the meeting as a member of the committee at the time, expressed the opinion that the non-life insurance industry should examine positive and concrete measures.

OCCURRENCE OF THE NIIGATA EARTHQUAKE

The Niigata Earthquake (M 7.5) occurred on June 16, 1964, around 1:00 pm, with a hypocenter off the shore of Niigata Prefecture. The earthquake affected nine prefectures, especially Niigata, Akita and Yamagata prefectures, leaving 26 dead. As for damage to residences, 1,960 were completely destroyed, 6,640 were half destroyed, 15,297 were flooded.

SUPPLEMENTARY RESOLUTION AT THE 46TH ORDINARY SESSION OF THE DIET

Just when the Niigata Earthquake struck, the Finance Committee of the House of Representatives was in the process of deliberating a bill to partially amend the Insurance Business Act. Consequently, on June 19, three days after the earthquake, the following supplementary resolution was passed, approving the proposed amendments to the act.

> In a country with frequent earthquakes such as Japan, the inability to pay claims for fire damage caused by earthquakes is a problem for the insurance system. For now, this House is giving guidance to ensure that non-life insurance companies take measures of some sort to deal with the recent earthquake disaster. This House should also examine the establishment of an earthquake insurance system, taking the nuclear insurance that is already offered into consideration, and seek to further develop and enhance the non-life insurance system in Japan, a country with frequent natural disasters.

Following this supplementary resolution, Kakuei Tanaka, who was originally from Niigata Prefecture and was the Ministry of Finance at the time, consulted with the Insurance Council at its 16th General Meeting on July 13, 1964, saying "It is a problem that, although Japan has one of the highest levels of seismic activity in the world, the risk of earthquake is currently barely covered under the existing non-life insurance system. It is now deemed necessary to re-examine the system and promptly establish a system to contribute to the stabilization of the livelihood of the nation at the time of sudden earthquake disasters. What is your view on concrete measures?" In response, the Insurance Council immediately began examination and deliberation of an earthquake insurance system led by its subcommittee.

LAUNCH OF THE EARTHQUAKE INSURANCE SYSTEM

On February 15, 1966, the Government passed cabinet resolutions approving the Bill Concerning Earthquake Insurance and the Bill on Special Account for Earthquake Reinsurance and these were submitted to the 51st ordinary session of the Diet on February 17. The bills were submitted to the Finance Committee of the House of Representatives on April 13 and to the Finance Committee of the House of Councillors on April 19 and, following deliberation by both committees, the bills were approved by the House of Representatives on April 28 and by the House of Councillors on May 11 and then promulgated and enacted on May 18. Government ordinances and ministerial ordinances related to these bills were promulgated and enacted on May 31 and June 1 respectively, and the structure for the earthquake reinsurance system was thus put in place.

Meanwhile, non-life insurance companies filed applications for approval to the Minister of Finance with respect to basic documentation such as the statement of business procedures, policy conditions, statement of calculation procedures for premium rates and policy reserves, and statement of procedures for use of property, pursuant to Article 1 of the Insurance Business Act (at the time). Property and Casualty Insurance Rating Organization of Japan (now the General Insurance Rating Organization of Japan) convened an extraordinary general meeting to determine earthquake premium rates and similarly filed an application for approval to the Ministry of Finance. These applications were approved on June 1, 1966, and earthquake insurance began to be sold with effect from the same date.

On May 30, 1966, Japan Earthquake Reinsurance Co., Ltd. was established with investment by 20 domestic non-life insurance companies as an organization which arranges reinsurance with the government. On June 1, 1966 JER received a license from the Ministry of Finance and began its operation.

OCCURRENCE OF EARTHQUAKE DISASTERS AND REVISION OF THE EARTHQUAKE INSURANCE SYSTEM

Given the specificity of earthquake risk and the absence of any contingency reserves at the launch of the system, it was necessary to avoid excessive losses as a result of the first earthquake and the earthquake insurance system was fairly restrictive, limiting the maximum cover available to the low level of 900,000 yen for building and 600,000 yen for contents and limiting the degree of indemnified loss to total loss.

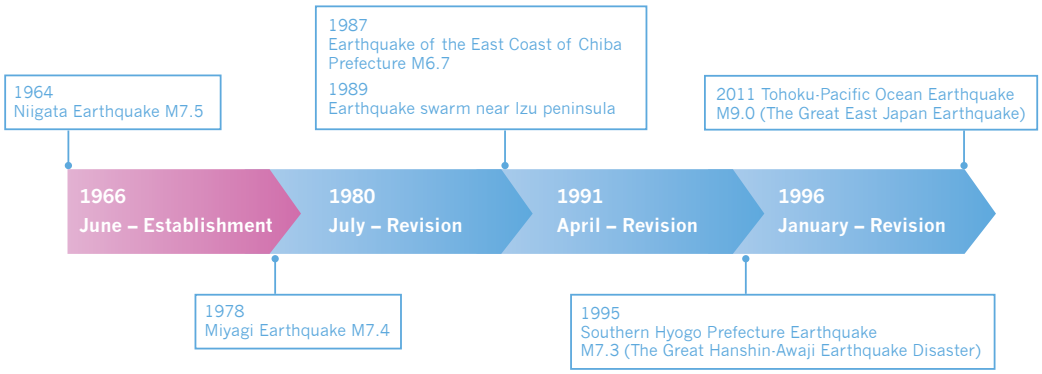
As explained in the Insurance Council report of 1965 which stated “This long-pending insurance still probably entails many problems that need to be resolved but we believe it is imperative to seek to launch this system based on a proposal that is realistically achievable rather than expecting this essentially problematic insurance to be perfect from the outset”, it was considered important to establish the system and make a start.

In addition, the Insurance Council report at the time stated “We hope that Government and non-life insurance companies will continue to enhance the system with even greater vigor in the future to meet social demands” and the supplementary Diet resolution passed at the time of the Law Concerning Earthquake Reinsurance (Law No. 73 of May 18, 1966) was passed also called for efforts to improve the operation of the earthquake insurance system, taking changes after enactment of the law into consideration.

Against this background, the earthquake insurance system has been improved many times in the past. These improvements were prompted by a range of factors, including changes in social and economic conditions such as rising prices or an increase in home ownership, as well as advances in government research into earthquakes and improvement in the earthquake resistance of buildings. However, it was feedback from earthquake victims that strongly called for improvements in the earthquake insurance system.

If we count detailed revisions to the system, the system has been revised ten or so times since

its establishment. However, in the fifty years since the system's establishment, there have been three major in-depth revisions to coverage option such as loss categories and maximum coverage. The earthquakes that were the so-called turning points for each of the revisions are shown below.



Then, following the 2011 Tohoku-Pacific Ocean Earthquake (magnitude 9.0) (The Great East Japan Earthquake) on March 11, 2011, the examination of a complete overhaul of the system, led by the Ministry of Finance's Earthquake Insurance System Project Team (chaired by Motohiro Sato, professor at Hitotsubashi University) began.

JULY 1980 REVISION

On June 12, 1978, the Miyagi Prefecture Earthquake struck. The earthquake had a magnitude of 7.4 and an epicentre off the coast of Miyagi Prefecture. Under the earthquake insurance system at the time, claims were paid only for total losses of buildings and the many buildings that were half destroyed or partly destroyed as a result of this earthquake were not covered by insurance. Consequently, although there was extensive damage, only 190 policies were certified as totally lost and paid claims amounted to no more than around 260 million yen.
Meanwhile, under the Building Endowment Insurance of Japan Agricultural Cooperatives, which similarly indemnified losses caused by the earthquake, partial loss was also indemnified and around 2.8 billion yen was paid out. Earthquake insurance thus became the subject of public criticism and there were calls for improvement from all quarters including policyholders. This problem was also taken up in the Diet and there was strong pressure for enhancement and early improvement of the earthquake insurance system. As a result, in June 1979, a report entitled Revision of the Earthquake Insurance System was produced and it was decided to make sweeping revisions to earthquake insurance in line with this report.

APRIL 1991 REVISION

On December 17, 1987, a 6.7 magnitude earthquake struck offshore Chiba Prefecture, causing damage not only to cities, towns and villages on the Pacific coast of Chiba Prefecture but to virtually the entire prefecture.

The non-life insurance industry decided to introduce the “partial loss” category to expand coverage and make earthquake insurance more widespread and, as a result, the method of paying claims according to the current three categories “total loss”, “half loss” and “partial loss” were established.

JANUARY 1996 REVISION

At 5:46 am on January 17, 1995, the 1995 Southern Hyogo Prefecture Earthquake struck. The epicenter of this 7.3 magnitude earthquake was off the coast nearby Awaji Island.
The percentage of households enrolled in earthquake insurance directly before the Great Hanshin-Awaji Earthquake Disaster had fallen to 7.0% (at the end of March 1994), the lowest level since the establishment of the system, and the percentage of households enrolled in Hyogo Prefecture was 2.9%, much lower than the national average. Consequently, the majority of disaster victims were unable to receive indemnification through earthquake insurance and the system was unable to fulfill its purpose set out in Article 1 of the Law Concerning Earthquake Reinsurance which was to promote the dissemination of earthquake insurance thereby helping to contribute to the stability of the lives of disaster victims of an earthquake, etc. Ultimately, claims paid through earthquake insurance amounted to no more than 65,427 claims or 78,346,970,000 yen.
Against this background, there were mounting calls to improve coverage and increase the appeal of earthquake insurance, in a bid to make earthquake insurance more widespread as a means of self-help for earthquake disasters, and revisions such as increasing maximum coverage and reviewing premium rates were made.

EXAMINATION STATUS OF SYSTEM REVIEW FOLLOWING THE GREAT EAST JAPAN EARTHQUAKE

At 14.46 on March 11, 2011, the most powerful earthquake recorded in Japan since records began struck off the Sanriku Coast. The magnitude 9.0 earthquake caused violent tremors and a large tsunami, resulting in unprecedented damage, mainly in the Tohoku and Kanto regions. The Japan Meteorological Agency named this earthquake the 2011 Tohoku-Pacific Ocean Earthquake, and the Government generally referred to the earthquake and the disaster caused by the subsequent tsunami and aftershocks as the Great East Japan earthquake.
At the time of this unprecedented disaster, a huge number of insurance claims (780,000) amounting to an enormous sum of money (over 1.2 trillion yen) were promptly paid to policyholders affected by the disaster through earthquake insurance, helping to rebuild and stabilize the lives of the victims. However, at the same time, the contingency reserves of private-sector insurance companies were largely depleted following the payment of such an enormous amount of claims, reducing their ability to pay future claims. There was also concern over the

occurrence of a large earthquake in the Tokyo Metropolitan area or the Nankai Trough in the future, prompting calls for an increase in the robustness of the earthquake insurance system. In the wake of the earthquake, a number of opinions regarding the commercial nature of earthquake insurance were also put forward by policyholders affected by the disaster.

Under these conditions, the Basic Policy on Special Account Reform approved by Cabinet resolution on January 24, 2012 stated with respect to the earthquake insurance system that "In light of the recent earthquake, the Government will urgently revise the total amount of approved claims and the amount of public and private sector insurance liabilities and also examine the commercial nature of earthquake insurance" and in April 2012, the Earthquake Insurance System Project Team (hereinafter referred to as the "Earthquake Insurance System PT"; chaired by Motohiro Sato, professor at Hitotsubashi University) was established in the Ministry of Finance.

The Earthquake Insurance System PT consisted of experts and academics from related fields, and the General Insurance Association of Japan, Foreign Nonlife Insurance Association of Japan, General Insurance Rating Organization of Japan, Financial Services Agency and JER also participated as observers.

Where necessary, the views of outside experts involved in crisis management and relevant ministries, agencies and organizations were sought, and energetic discussions were held, taking the actual situation of the people and areas affected by the Great East Japan Earthquake into consideration and also listening to the opinions of policyholder and consumers.

From April 2012, discussions were held 12 times, and in November 2012, the Earthquake Insurance System PT's recommendations were published in a report. The report summarized recommendations relating to "general statement," "resilience" "commercial nature" and "premium rates" divided into "urgent issues," "issues to be addressed promptly" and "issues for further discussion." In addition, from November 2013, approximately one year after publication of the report, the Earthquake Insurance System PT met to assess the status of initiatives taken to address issues set out in the report.

PUBLICATION OF *FIFTY YEARS OF JAPAN EARTHQUAKE REINSURANCE CO., LTD.*

In commemoration of our 50th anniversary, we published *Fifty Years of Japan Earthquake Reinsurance Co., Ltd.* The book describes the development and current status of the earthquake insurance system and JER, and also records the collaborative initiatives undertaken between the public and private sectors to deal with the Great East Japan Earthquake and the Great Hanshin-Awaji Earthquake. We hope it will be of reference to future generations.

CHRONOLOGICAL TABLE OF EARTHQUAKE INSURANCE AND JAPAN EARTHQUAKE INSURANCE CO., LTD.

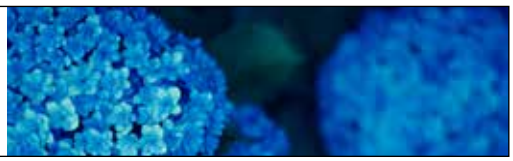
Year	Month	Earthquake insurance/JER developments	Major events	Major earthquakes or volcanic eruptions
1964	Jun.	Supplementary resolution to resolution approving bill for partial amendment of the Insurance Business Act When passing a resolution on a bill amending the Insurance Business Act in the 46th Ordinary Session of the Diet, the House of Representatives Finance Committee, prompted by the Niigata Earthquake, adopts a supplementary resolution urging examination of the earthquake insurance system.		•Niigata Earthquake (M7.5)
	Jul.	Minister of Finance Kakuei Tanaka consults the Insurance Council over concrete measures for the establishment of earthquake insurance.		
1965	Apr.	Insurance Council finalizes Report on the Establishment of Earthquake Insurance		
1966	Feb.	Board of Directors of General Insurance Association of Japan passes resolution to establish Japan Earthquake Reinsurance Co., Ltd. (JER).		
	May	Property and Casualty Insurance Rating Organization of Japan convenes extraordinary general meeting to determine earthquake premium rates.		
	May	Promulgation and enactment of Law Concerning Earthquake Insurance Promulgation and enactment of Earthquake Insurance Special Account Law Establishment of JER		
	May	JER is established in Chiyoda Ward, Tokyo with capital of 1 billion yen through investment by 20 non-life insurance companies. Launch of only company in Japan permitted to exclusively handle reinsurance for earthquake insurance		
	May	Enforcement Ordinance of Law Concerning		
	Jun.	Earthquake Insurance promulgated and enacted Earthquake insurance system launched (Japanese non-life insurance companies start selling earthquake insurance.)		
1968			•Launch of long-term comprehensive insurance •Launch of group insurance	•Ebino Earthquake (M6.1) (First time claims are paid since launch of the earthquake insurance system)
1972	May	Revision of earthquake insurance system (revision of total amount of approved claims, etc.) 300 billion yen → 400 billion yen		
1973			•Launch of dwelling house fire insurance	
1975	Apr.	Revision of earthquake insurance system (introduction of optional addition, revision of total amount of approved claims, etc.) 400 billion yen → 800 billion yen		
	Jul.	Start of underwriting of long-term (2-35 years) earthquake insurance policies		

Year	Month	Earthquake insurance/JER developments	Major events	Major earthquakes or volcanic eruptions
1978	Apr.	Revision of earthquake insurance system (revision of total amount of approved claims, etc.) ¥800 billion → ¥1.2 trillion	•Enactment of Law on Special Measures Concerning Countermeasures for Large-Scale Earthquakes	•1978 Miyagi Earthquake (M7.4)
	Nov.	Insurance Council decides that non-life insurance subcommittee will deliberate the overhaul of earthquake insurance, which was found to be lacking at the time of the Miyagi Earthquake.		
1979	Jun.	Insurance Council issues report, "Revision of the Earthquake Insurance System"		
1980	Jul.	Revision of earthquake insurance system (introduction of half-destroyed category, etc.)		
	Jul.	Discontinuation of underwriting of long-term (2-35 years) earthquake insurance policies		
1981			•Revision of Enforcement Regulations of the Building Standards Law (introduction of new earthquake resistant design standards)	
1982	Apr.	Revision of earthquake insurance system (revision of total amount of approved claims, etc.) ¥1.2 trillion → ¥1.5 trillion		
1983			•Establishment of Disaster Preparedness Week	•1983 Japan Sea Earthquake (M7.7) •1983 Miyakejima Volcanic Eruption
1988	–	Introduction of our first computer system		
	Jul.	Start of underwriting of long-term (2-5 years) earthquake insurance		
1991	Apr.	Revision of earthquake insurance system (revision of premium rates, introduction of partly destroyed category)	•Japan Meteorological Agency (JMA) starts using seismometers (world first)	•1991 Mt. Unzen Fugendake Volcanic Eruption
1993				•1993 Southwest-Off Hokkaido Earthquake (M7.8)
1994	May	UN World Conference on Disaster Risk Reduction in Yokohama (Chairman of General Insurance Association of Japan gave lecture entitled Role of Non-life Insurance for Natural Disaster Management)		•1994 East Off Hokkaido Earthquake (M8.2) •1994 Far Off Sanriku Earthquake (M7.6)
	Jun.	Revision of earthquake insurance system (revision of total amount of approved claims) 1.5 trillion yen → 1.8 trillion yen		
1995	Jan.	Introduction of earthquake insurance midway addition	•Enactment of Law on Special Measures concerning Earthquake Disaster Management •Establishment of Disaster Management and Volunteer Day •Establishment of the Headquarters For Earthquake Research Promotion	•1995 Southern Hyogo Prefecture Earthquake (M7.3) (Great Hanshin-Awaji Earthquake)
	Oct.	Revision of earthquake insurance system (revision of total amount of approved claims) 1.8 trillion yen → 3.1 trillion yen		

Year	Month	Earthquake insurance/JER developments	Major events	Major earthquakes or volcanic eruptions
1996	Jan. Jul.	Revision of earthquake insurance system (revision of premium rates, etc.) Relocation of JER to Chuo Ward, Tokyo	•Enactment of New Insurance Business Act •Conclusion of U.S.-Japan Insurance Agreements •Revision of earthquake intensity scale by JMA (0-10)	
1997	Apr.	Revision of earthquake insurance system (revision of total amount of approved claims) 3.1 trillion yen → 3.7 trillion yen		
1998	Oct.	Promulgation and enactment of Ministerial Ordinance Concerning Payment by Rough Estimate of Reinsurance Claims Relating to Earthquake Insurance	•Establishment of Financial Supervisory Agency •Revision and promulgation of Insurance Business Act •Enactment of Law on Support for Reconstructing Livelihoods of Disaster Victims	
1999	Apr.	Revision of earthquake insurance system (revision of total amount of approved claims) 3.7 trillion yen → 4.1 trillion yen		
2000			•Establishment of Financial Services Agency •Enactment of Housing Quality Assurance Law	•2000 Usuzan Volcanic Eruption •2000 Western Tottori Earthquake (M7.3)
2001	Sep. Oct.	Establishment of JER website Revision of earthquake insurance system (revision of premium rates, introduction of discount system)	•Okurasho (Finance Ministry) was renamed Zaimusho (Ministry of Finance). •Establishment of Cabinet Office •Start of insurance sales by banks, etc. •Liberalization of non-life insurance agency system •First round of reorganization and consolidation of non-life insurance companies begins	•2001 Geiyo Eartquake (M6.7)
2002	Apr.	Revision of earthquake insurance system (revision of total amount of approved claims) 4.1 trillion yen → 4.5 trillion yen	•Establishment of General Insurance Rating Organization of Japan •Enactment of Law on Special Measures concerning Advancement of Countermeasures against Disasters of Tonankai and Nankai Earthquakes	

Year	Month	Earthquake insurance/JER developments	Major events	Major earthquakes or volcanic eruptions
2003	Apr.	Start of examination of issues relating to the underwriting of earthquake insurance as a result of "Tokai Earthquake Cautionary Information" and "Convocation of Earthquake Assessment Committee" issued by JMA	•Start of provision of volcano information with JMA volcanic activity level	•Off Miyagi Prefecture Earthquake (M7.1) •Northern Miyagi Prefecture Earthquake (M6.4) •2003 Off-Tokachi Earthquake (M8.0)
2004	Sep.	Start of discussions for review of Special Account for Earthquake Reinsurance	•Enactment of Law on Special Measures concerning Advancement of Countermeasures against Earthquake Disaster in Relation to Subduction Zone Earthquake Around Japan Trench and Chishima Trench •JMA starts applying new information related to Tokai Earthquake.	•2004 Mid Niigata Prefecture Earthquake (M6.8)
2005	Jan. Apr.	Public forum (earthquake insurance radio forum) held at UN World Conference on Disaster Risk Reduction in Kobe Revision of earthquake insurance system (revision of total amount of approved claims, establishment of standard premium rates using long-term coefficients) 4.5 trillion yen → 5.0 trillion yen	•10 years after the Great Hanshin-Awaji Earthquake •Business improvement orders are issued to non-life insurance companies found to have made omissions in the payment of claims.	•West Off Fukuoka Earthquake (M7.0) •West Off Fukuoka Earthquake (M5.8)
2006	Mar.	Number of earthquake insurance policies tops 10 million (10.24 million)		
2007	Jan. Oct.	Implementation of earthquake insurance premium deduction system Revision of earthquake insurance system (revision of premium rates, etc.)	•Administrative action, including business suspension orders, taken against non-life insurance companies found to have improperly paid or not paid claims related to third-party insurance products. •Ban on insurance sales by banks lifted across-the-board. •JMA starts general provision of early earthquake warnings. •JMA starts ground motion warnings and volcanic phenomenon warnings, and introduces volcanic eruption warning levels.	•2007 Noto Peninsula Earthquake (M6.9) •2007 Niigata Prefecture Chuetsu Offshore Earthquake (6.8)

Year	Month	Earthquake insurance/JER developments	Major events	Major earthquakes or volcanic eruptions
2008	Apr.	Revision of earthquake insurance system (revision of total amount of approved claims) 5 trillion yen → 5.5 trillion yen		•2008 Iwate-Miyagi Inland Earthquake (M7.2) •Earthquake in the Northern Coast of Iwate Prefecture (M6.8)
	–	Development of our system platform and complete revamp of the system		
2009	Apr.	Revision of earthquake insurance system (revision of amounts of liability borne by public and private sectors)		•Suruga Bay Earthquake (M6.5)
2010	Jan.	Revision of earthquake insurance system (revision of building structure categories for premium rates)	•Enactment of Insurance Law •Second round of reorganization and consolidation of non-life insurance companies begins. •Establishment of General insurance Counseling and ADR Center in the General Insurance Association of Japan	
	Oct.	Special Account for Earthquake Reinsurance is included in the budget screening of the Cabinet Office's Government Revitalization Unit		
2011	Jan.	Working Group for Summary of Issues Concerning Special Account for Earthquake Reinsurance is established in the Ministry of Finance, and JER takes parts as an observer.	•Enactment of Law on Promotion of Tsunami Countermeasures	•Sanriku Offshore Earthquake (M7.3) •2011 Tohoku-Pacific Ocean Earthquake (M9.0) (The Great east Japan Earthquake) •Northern Nagano Prefecture Earthquake (M6.7) •Eastern Shizuoka Prefecture Earthquake (M6.4) •Earthquake off Miyagi Prefecture (M7.2) •Fukushima Hamadōri Earthquake (M7.0) •Central Nagano Prefecture Earthquake (M5.4) •Eruption at Kirishima Volcano's Shinmoedake Crater
	Apr.	The Government, the non-life insurance industry and JER decide to implement payment by rough estimate of earthquake reinsurance claims.		
	May	Revision of earthquake insurance system (public-private reinsurance scheme is revised through enactment of FY2011 1st revised budget.)		
	Nov.	Working Group for Summary of Issues Concerning Special Account for Earthquake Reinsurance reports Summary of Issues Concerning Special Account for Earthquake Reinsurance to the Government Revitalization Unit.		
2012	Jan.	Basic Policy on Special Account Reform (approved by cabinet on January 24, 2012) concludes that the Earthquake Reinsurance Special account will continue to exist.		•Sanriku Offshore Earthquake (M7.3)
	Feb.	GIAJ announces that total amount of approved claims for the Great East Japan Earthquake exceeded 1.2 trillion yen.		
	Mar.	Earthquake insurance addition rate tops 50% (53.7%).		
	Mar.	Number of earthquake insurance contracts tops 14 million (14.08 million).		
	Mar.	JER installs its server at state-of-the-art data center as BCP measures.		



Year	Month	Earthquake insurance/JER developments	Major events	Major earthquakes or volcanic eruptions
	Apr.	Revision of earthquake insurance system (revision of total amount of approved claims) 5.5 trillion yen→6.2 trillion yen		
	Apr.	Earthquake Insurance System Project Team established in Ministry of Finance, and JER participates as observer.		
	Nov.	Ministry of Finance publishes Earthquake Insurance System Project Team Report.		
2013	Mar.	Complete revamp of our system in readiness for Tokyo Inland Earthquake •Installation of backup system at Okinawa Data Center •Development of remote access to enable continuation of business even if head office is affected by disaster	•90 years since the Great Kanto earthquake •Enactment of Law on Countermeasures Against Tokyo Inland Earthquake	•Awaji Island Earthquake (M6.3)
	May	Revision of earthquake insurance system (revision of percentage of costs borne by public and private sectors)		
	Nov.	Ministry of Finance's Earthquake Insurance System Project Team holds follow-up meeting and JER participates as observer.		
2014	Apr.	Establishment of JER temporary office in Saitama City as BCP measure.	•50 years since Niigata Earthquake	•Iyonada Earthquake (M6.2) •Mount Ontake Volcanic Eruption •Northern Nagano Prefecture Earthquake (M6.7)
	Apr.	Revision of earthquake insurance system (revision of total amount of approved claims, etc.) 6.2 trillion yen → 7 trillion yen		
	Jul.	Revision of earthquake insurance system (revision of premium rates, expansion of discount system)		
2015	Mar.	Public forum (earthquake insurance-related event) held at UN World Conference on Disaster Risk Reduction in Sendai	•20 years since the Great Hanshin-Awaji Earthquake	•Eruption occurred on Kuchinoerabujima Island •Earthquake West Off Ogasawara Islands (M8.1) •Earthquake in the South of Oita Prefecture (M5.7)
	Jun.	Publication of summary of conclusions of follow-up meeting Ministry of Finance's Earthquake Insurance System Project Team		
2016	Apr.	Revision of earthquake insurance system (revision of total amount of approved claims, etc.) 7 trillion yen → 11.3 trillion yen	•5 years since the Great East Japan Earthquake	•2016 Kumamoto Earthquakes (M6.5, M7.3)
	May	50th anniversary of the establishment of JER		
	Jun.	50th anniversary of the launch of the earthquake insurance system		

* Details of major earthquake and volcanic eruptions are produced by JER based on data published on the JMA website.

JAPAN EARTHQUAKE REINSURANCE CO., LTD.

PROFILE

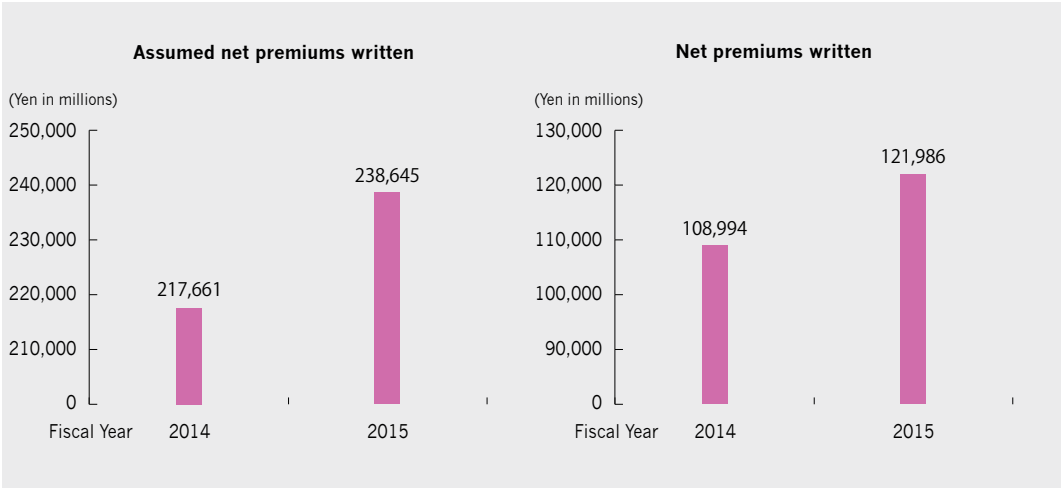
In accordance with the introduction of the Law concerning Earthquake Insurance (Law No. 73, May 18, 1966) and following the launch of sales of earthquake insurance on dwelling risks to be written in conjunction with dwelling and shop-owners comprehensive insurance policies, JER was established with share 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.

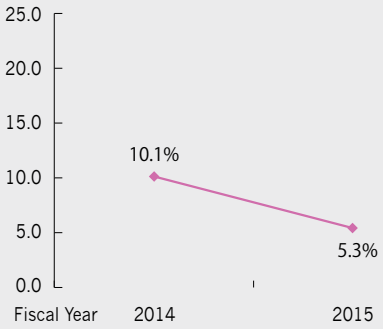
The insurance premiums paid by policyholders are separated from non-life insurance companies, and are managed and operated by the government and JER.

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.

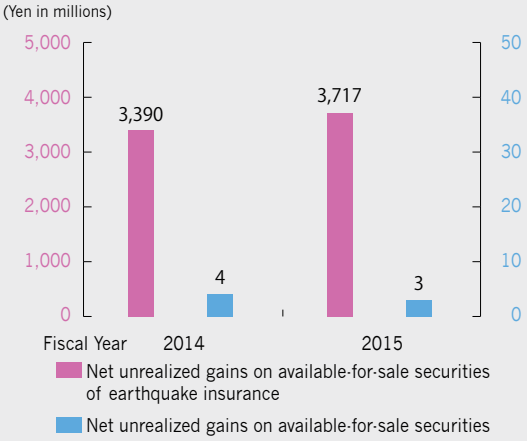
FINANCIAL HIGHLIGHTS



Net loss ratio



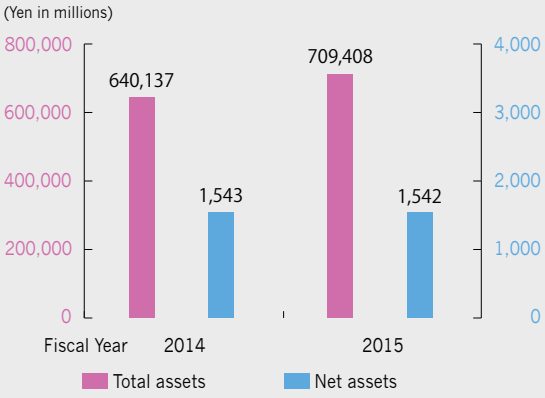
Net unrealized gains on available-for-sale securities of earthquake insurance and net unrealized gains on available-for-sale securities



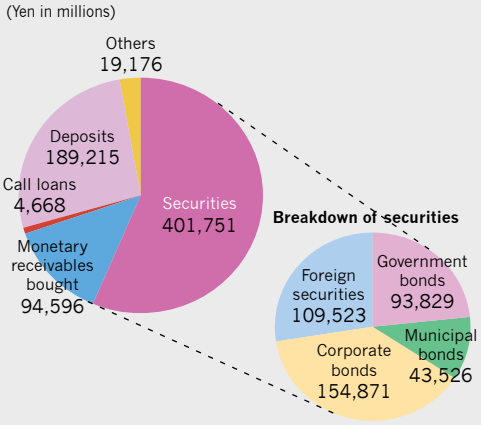
Non-consolidated solvency-margin ratio

Items	FY2014	FY2015
(A) Total amount of non-consolidated solvency-margin	421.3 billion yen	469.3 billion yen
(B) Total amount of non-consolidated risk	237.7 billion yen	239.3 billion yen
Non-consolidated solvency-margin ratio (A) / {1/2x(B)} x 100	354.5%	392.1%

Total assets and net assets

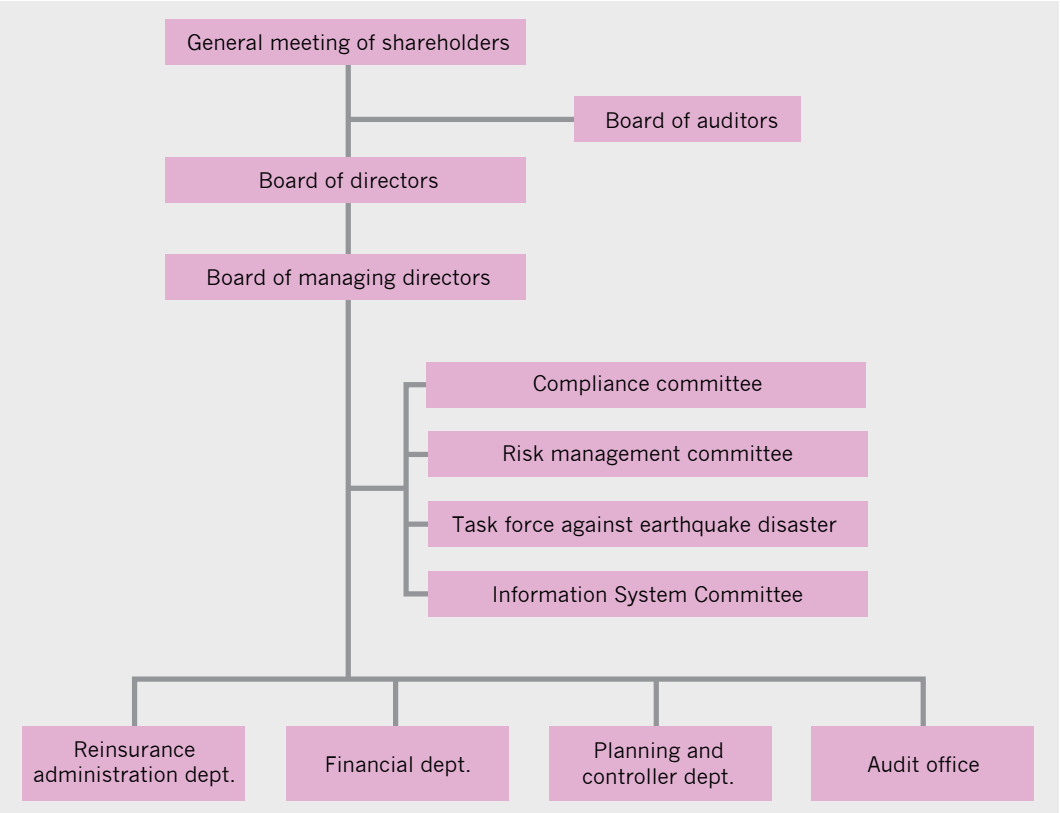


Breakdown of total assets



ORGANIZATION

(As of April 1, 2016)



SHAREHOLDERS

(As of March 31, 2016)

Shareholder	No. of shares owned (1,000 shares)	Percentage of shares owned (%)
Tokio Marine & Nichido Fire Insurance Co., Ltd.	537	26.9
Sompo Japan Nipponkoa Insurance Inc.	529	26.5
Mitsui Sumitomo Insurance Co., Ltd.	338	16.9
Aioi Nissay Dowa Insurance Co., Ltd.	255	12.8
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

BOARD MEMBERS (FULL-TIME)

(As of July 1, 2016)

Post	Name
Chairman (representative director)	Yoshihiko Murase
President (representative director)	Makoto Sugimachi
Managing director (representative director)	Shinji Okazaki
Managing director (representative director)	Shoichiroh Takemoto
Corporate auditor	Katsuhiko Murata

RESPONSES TO MAJOR EARTHQUAKES

We consider prompt earthquake reinsurance payouts to be our most important mission. Based on this view, we have established a standing Task Force Against Earthquake Disaster that deals exclusively with earthquake disaster responses. Consisting of our full-time directors and division managers, the Task Force oversees system development in preparation for major earthquakes and carries out periodic earthquake response drills.

We also manage and operate the assets we have accumulated for the purpose of earthquake reinsurance payouts by paying the utmost attention to their liquidity (cashability) and safety so that reinsurance payouts are made without delay in the event of a major earthquake.

Task Force Against Earthquake Disaster and its Activities

Our Task Force Against Earthquake Disaster is working to make business continuity management more effective in preparation for an inland earthquake in the Tokyo metropolitan area, with the view that this activity is of the utmost importance.

Immediately after the Great East Japan Earthquake, the Task Force reformed system infrastructure and relocated important systems to data centers that are more resistant to earthquakes to ensure business continuation in the event of an office disaster. In addition, the Task Force substantially reduced the risk of simultaneous disaster damage by establishing a backup system in Okinawa. The Task Force also established a system that enables directors and employees to continue undertaking business from home, even in cases where traveling to the office becomes impossible, by building a system that can be accessed from external locations. The Task Force confirms the effectiveness of this system through regular work-at-home exercises.

In fiscal 2014, the Task Force Against Earthquake Disaster resolved issues that had surfaced through work-at-home exercises that were undertaken in the previous fiscal year and carried out drills to develop a more effective business continuity system division by division. Moreover, the Task Force implemented additional drills, in which all JER employees participated, in a bid

to secure the personnel necessary for processing the tasks that will arise in large volumes in the event of a major earthquake.

Drills by division (drills at home and using a temporary office)

From May 2015 to November 2015, the Task Force Against Earthquake Disaster conducted drills by division, based on the assumption that employees were prevented from going to work at the Kobunacho office, to seek to strengthen BCM. The Task Force implemented drills for establishing an earthquake response headquarters assuming that the president was unreachable in the administrative and planning divisions, and in the operating divisions, assuming a scenario in which managerial staff were unable to work, ran drills for reinsurance claim payments based on rough estimates. In addition, the Task Force asked members of the financial divisions to conduct securities purchasing operations in a temporary office.

Drills for all employees (drills for processing loss assessment expenses)

The number of claims for loss assessment expenses increases significantly with the occurrence of a major earthquake, making it impossible for the division in charge to handle them. To address this problem, in September 2015 the Task Force Against Earthquake Disaster conducted drills for checking and inputting the loss assessment expenses, in which all JER employees participated, to secure processing personnel. The Task Force is working during normal conditions to secure personnel that can undertake prompt payments to prepare JER for an inland earthquake in the Tokyo metropolitan area and an earthquake in the Nankai Trough, both of which are expected to produce claims outnumbering those made at the time of the Great East Japan Earthquake.

Management Based on Highly Liquid Assets

Should a disaster such as 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 manage assets safely commensurate with our responsibilities, centered on highly rated bonds such as highly liquid government bonds. We also hold mainly short- and medium-term bonds to reduce the risk of price fluctuations at the time of their liquidation.

Preparations for Earthquakes

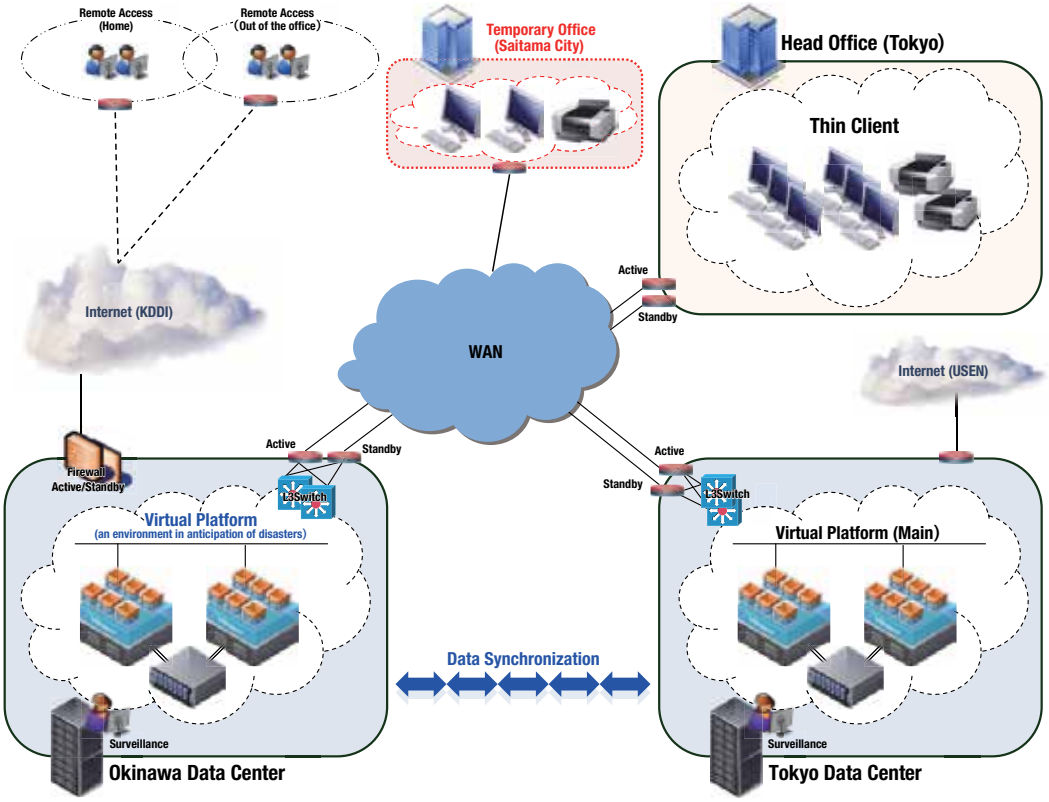
We have installed a terminal for receiving early earthquake warnings from the Japan Meteorological Agency at our head office. We use this terminal to ensure the safety of visitors, directors and employees. We are proceeding with a program for making business facilities, equipment and the like at our head office earthquake-proof as well. In accordance with the part of the Tokyo metropolitan ordinance related to measures for dealing with commuters who are unable to get home, we store sufficient drinking water, food, daily necessities and other items to enable employees to stay in the office if an earthquake occurs during working hours.

System Infrastructure in Anticipation of an Inland Earthquake in the Tokyo Metropolitan Area

To ensure business continuity in the case of the feared inland earthquake in the Tokyo metropolitan area, in March 2013 we renovated all of our important systems and moved them onto a virtual platform at a cutting-edge data center in Tokyo, which has Japan's highest-level earthquake-resistance capacity and energy utilization efficiency. To make doubly sure, we have established a backup system at our data center in Okinawa, which is unlikely to be affected by an earthquake at the same time as Tokyo, and have built a system for data synchronization between Tokyo and Okinawa using a communications line.

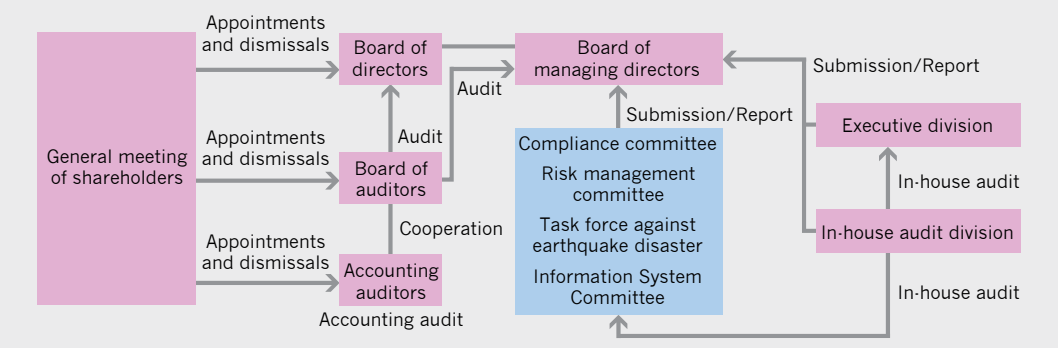
Moreover, we have made our terminals thin clients and concentrated data on the virtual platform to reduce the risk of data loss and information leakage. Combined with a remote access system whereby users outside the company can access the company's system via the Internet, we have created an environment that enables employees to use the same systems as usual if they have access to the Internet, even if the transportation network is disrupted by an inland earthquake in the Tokyo metropolitan area and they are unable to come to the office.

We will continue to focus on strengthening our business continuity management in anticipation of an inland earthquake in the Tokyo metropolitan area.



CORPORATE GOVERNANCE

We believe that establishing corporate governance is an important management issue, and are endeavoring to manage our business in a sound and appropriate manner by establishing a transparent management system with verification functions.



Committee-based Operation

We have established a Compliance Committee, a Risk Management Committee and an Information System Committee under the direct control of the Board of Managing Directors in an effort to ensure sound and transparent business operations by strengthening the supervisory function with the construction of systems for compliance, risk management and system management.
In addition, in preparation for the risk of a major earthquake, we have establishing the Task Force Against Earthquake Disaster to facilitate the payment of reinsurance claims and maintain the funding plan for payment, enabling us to take prompt action in response to large-scale earthquake disasters.
The annual operation policies and operating conditions of each committee are periodically submitted or reported to the Board of Managing Directors and the Board of Directors.

Auditing and Inspection Systems

Outside Auditing and Inspection

We 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 undergo accounting audits by PricewaterhouseCoopers Aarata LLC in accordance with the Companies Act.

In-house auditing

Corporate auditors conduct audits and the Audit Division of JER, which is independent from other divisions, conducts in-house audits. The corporate auditors and the Audit Division cooperate with each other, drawing on the results of each other's audits, in a bid to ensure effective 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 various in-house systems and the execution of various internal activities fairly and objectively from the standpoint of lawfulness and rationality.

It also requires the provision of the necessary advice and recommendations based on the examination and evaluation, contributing to the sound development of the company and building credibility in the community.
The Audit Division conducts regular audits of the internal control conditions of all divisions as well as audits on priority themes based on the "In-house Audit Policy and Plan" for each fiscal year adopted by resolution of the Board of Directors. Following audits, the audit results, including recommendations for corrections and improvements, are reported to the Board of Managing Directors and the Board of Directors, and are communicated to the audited divisions.

Risk Management System

We have developed a structure in which risk management is appropriately carried out to ensure sound and safe management. This organizational framework and important risk management issues are defined in our Risk Management Rules and Integrated Risk Management Rules. Specific ways of managing various risks—namely, asset management risks, liquidity risks, and operational risks—are defined in our management rules for each type of risk and our annual risk management policies. We have also established a company-wide Risk Management Committee, and are managing risks in an integrated manner by fully understanding our risk management situation.

Asset Management Risks

Risks relating to asset management are classified into "market risks" and "credit risks" for risk 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 work 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 their 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 possibly 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 "Administrative risks," "IT system risks," and "other operational risks," and we manage these risks as appropriate given the characteristics of each.

Administrative risks

Administrative risks 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.

IT system risks

IT system risks are risks of losses that may be caused by IT 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 operational risks

As other operational risks, we are aware of such risks as "human resource 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.

TOPICS

Dispatch of Employees to Educational Institutions

We dispatch our employees to educational institutions and similar facilities to enhance understanding of earthquake insurance systems. In fiscal 2015, JER employees delivered lectures at a seminar of the Faculty of Economics of Tohoku University in September. They explained to students taking a course on insurance theory an outline of the earthquake insurance system, how the reinsurance system works, and the roles we played in the aftermath of the Great East Japan Earthquake.

Lecture as Part of Training Organized by the Thai Insurance Authorities

JER gave a presentation outlining Japan's earthquake insurance system and explained earthquake risk and household earthquake insurance system to a group of trainees (totaling 65) from the Thai insurance authorities (OIC) who were visiting Japan. Participants showed a high level of interest, asking questions about how earthquake insurance premium rates work and JER's roles.

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 to 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.

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:

	Residential building		Personal property
Degree of loss	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 11,300 billion yen as revised in April 1, 2016 per earthquake, etc.. (On the same day, the liability limits of JER, non-life insurance companies and the government were revised. Please refer to page 33 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 General Insurance Rating Organization of Japan** on the basis of the Law concerning General 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.

Premium rate = Risk premium rate + 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 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 page 33 Insurance liabilities held by JER, non-life insurance companies and the government.

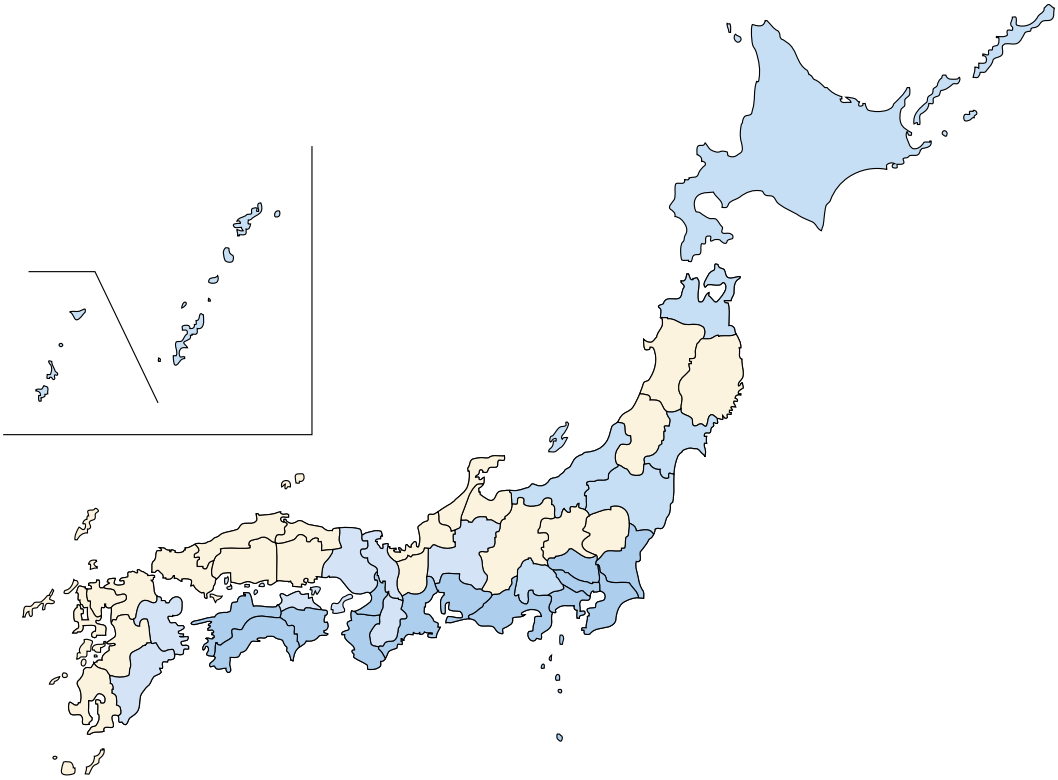
** *General Insurance Rating Organization of Japan*
An organization established in accordance with the Law concerning General Insurance Rating Organizations, which aims to provide a fair basis premium rate applicable to non-life insurance.

*** *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 National Seismic Hazard Maps are subject to an annual review.

Basic rate (applicable to buildings and personal property)
Examples of premiums

Per one year insurance period and 10 million yen of amount insured (Unit: yen)

Location classification	Prefecture	Non wooden	Wooden	Wooden (with transitional measures)
1	Iwate-ken, Akita-ken, Yamagata-ken, Tochigi-ken, Gunma-ken, Toyama-ken, Ishikawa-ken, Fukui-ken, Nagano-ken, Shiga-ken, Tottori-ken, Shimane-ken, Okayama-ken, Hiroshima-ken, Yamaguchi-ken, Fukuoka-ken, Saga-ken, Nagasaki-ken, Kumamoto-ken, Kagoshima-ken	6,500	10,600	8,400
2	Fukushima-ken	6,500	13,000	8,400
	Hokkai-do, Aomori-ken, Miyagi-ken, Niigata-ken, Yamanashi-ken, Gifu-ken, Hyogo-ken, Nara-ken, Kyoto-fu, Kagawa-ken, Oita-ken, Miyazaki-ken, Okinawa-ken	8,400	16,500	10,900
3	Ibaraki-ken, Ehime-ken	11,800	24,400	15,300
	Saitama-ken, Osaka-fu	13,600		17,600
	Tokushima-ken, Kochi-ken	11,800	27,900	15,300
	Chiba-ken, Tokyo-to, Kanagawa-ken, Shizuoka-ken, Aichi-ken, Mie-ken, Wakayama-ken	20,200	32,600	26,200



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	50%

(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%	30%	50%

(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%

(d) Building age discount rate

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

Discount rate	10%

* *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

*** *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.

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

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 10 million yen
Period of insurance: One year

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: 10 million yen x 50% = 5 million yen
2. Confirming the premium rate applicable: Hyogo-ken, wooden
   → 1.65 (premium per 1,000 yen insurance)
3. Confirming the discount rate applicable: Building constructed in and after June 1981
   → 10%

Earthquake insurance premium on residential building = Earthquake amount insured 10,000 (1,000 yen) x Earthquake insurance premium rate 1.65 x (100% − Discount rate 10%) = 1.49 = 14,900 (yen)

Earthquake insurance premium on personal property = Earthquake amount insured 5,000 (1,000 yen) x Earthquake insurance premium rate 1.65 x (100% − Discount rate 10%) = 1.49 = 7,450 (yen)

* 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.

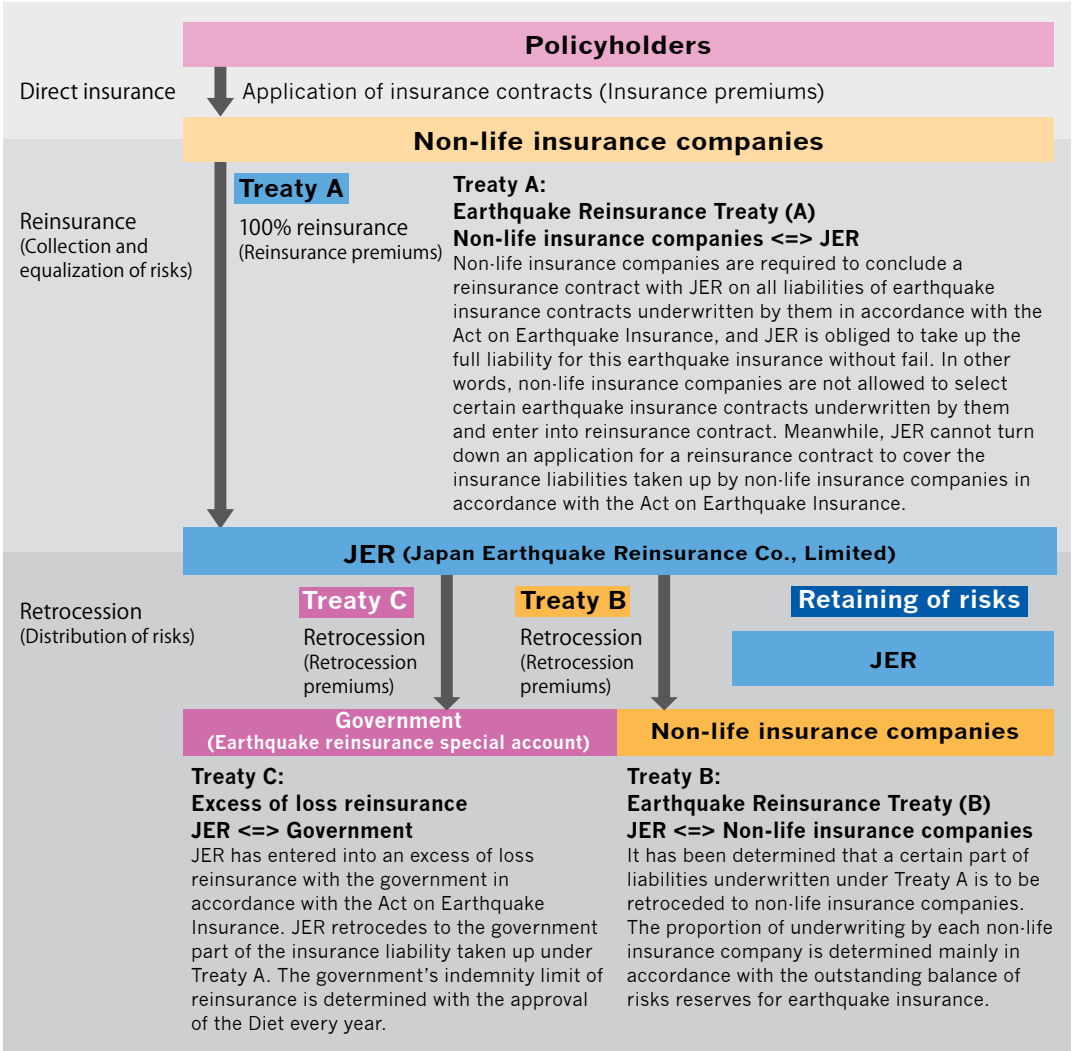
MECHANISM OF PAYMENT OF INSURANCE CLAIMS

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.

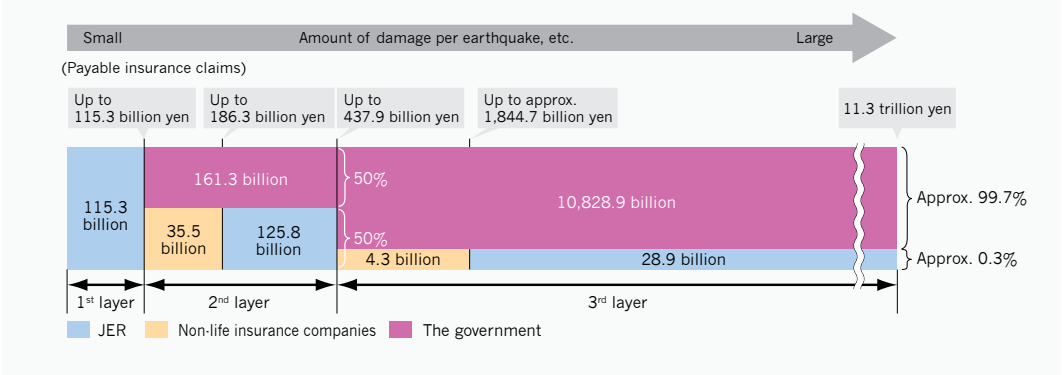
JER first reinsures earthquake insurance contracts that were underwritten by non-life insurance companies, and then divides the risks evenly. After excluding the risks held by JER, JER implements retrocession against the government and non-life insurance companies in accordance with the burden of risks 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 11.3 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 1, 2016)



Liability limit

JER	270.0 billion yen
Non-life insurance companies	39.8 billion yen
The government	10,990.2 billion yen

JER pays insurance claims up to 115.3 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 115.3 billion yen, up to 437.9 billion yen (2nd layer). The government pays a majority of insurance claims (approximately 99.7%) for the portion exceeding 437.9 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 / A person of burden	Portion up to 115.3 billion yen	Portion over 115.3 billion yen, and up to 437.9 billion yen	Portion over 437.9 billion yen, and up to 2,000 billion yen	Total
Non-life insurance companies	115.3	161.3	About 4.7	About 281.3
The government	—	161.3	About 1,557.4	About 1,718.7
Total	115.3	322.6	1,562.1	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 2015

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. Additionally, it is necessary for all investment profits from these accumulated liability reserves to also be accumulated as liability reserves. 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	464.5 billion yen
Non-life insurance companies	78.1 billion yen
The government	1,325.0 billion yen
Total	1,866.7 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 2015 is approved by the Diet.

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

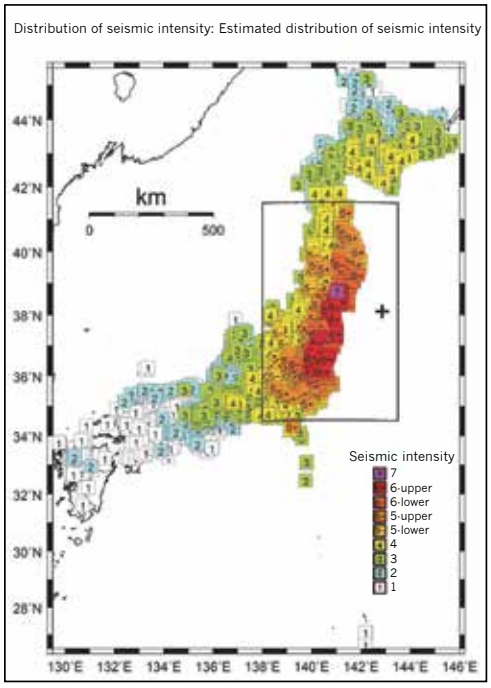
(v) JMA Seismic Intensity:

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 12 a.m., March 6, 2016) is as follows.

Maximum seismic intensity	No. of aftershocks
6-upper	2
6-lower	2
5-upper	17
5-lower	47
4	282



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

Summary of damage (as of March 1, 2016)

(i) Casualties:	Death:	19,418 people
	Missing:	2,592 people
	Injured:	6,220 people
(ii) Residential damage:	Total collapse:	121,809 houses
	Half collapse:	278,496 houses
	Partially collapse:	744,190 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. 153)" 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 March 31, 2015, the overall non-life insurance industry paid earthquake insurance of approximately 1,265.3 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.

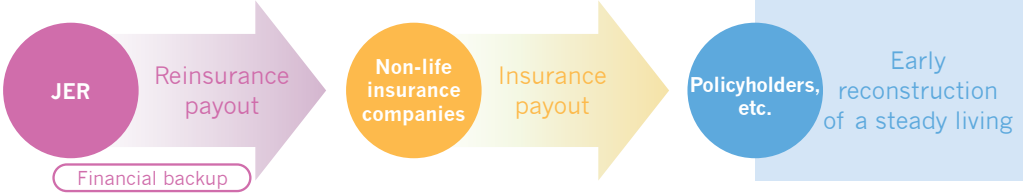
(5) Donation of the relief money

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 1,265.3 billion yen for approximately 790,000 policies(Note) by the end of March 2015.
(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

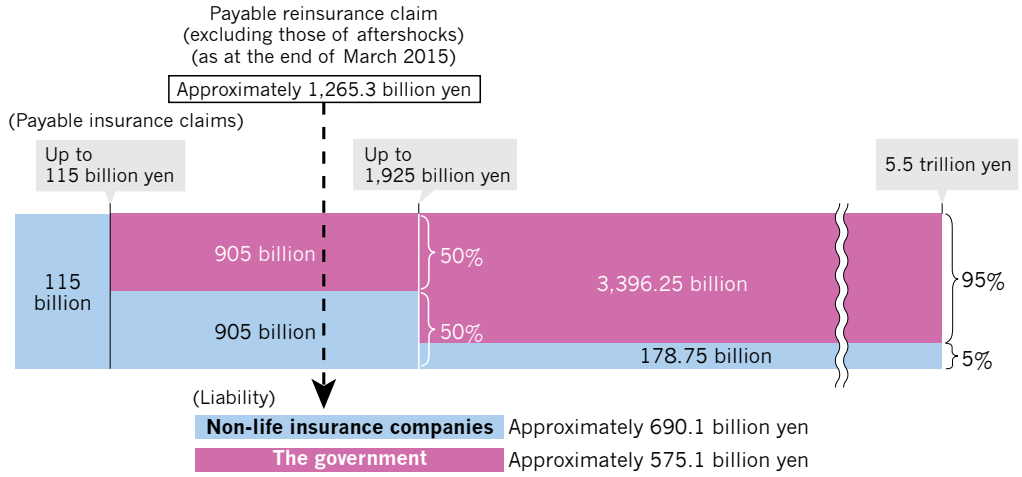
- ✓ Provision of funds of approximately 968.6 billion yen to non-life insurance companies within 75 days of the earthquake (May 25, 2011).

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)



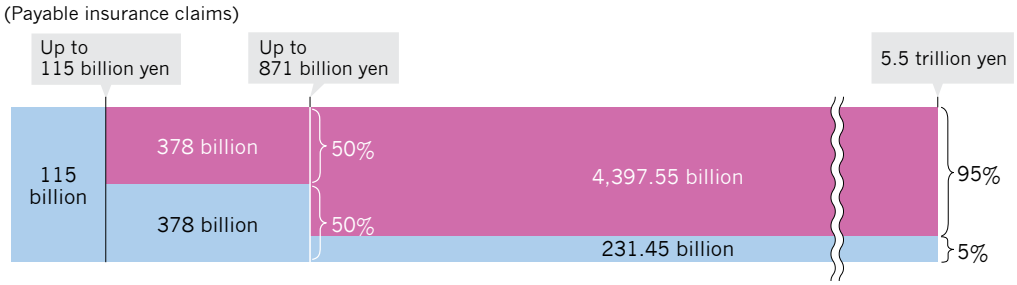
Liability Limit

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)



Liability Limit

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

Note: Please refer to page 33 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, 2015)

By Prefectures

	Region	No. of policies	Reinsurance claims (million yen)
	Hokkaido	1,532	1,723
Tohoku	Aomori	8,314	5,266
	Iwate	26,744	57,713
	Miyagi	244,548	556,886
	Akita	2,289	1,278
	Yamagata	4,023	3,157
	Fukushima	75,743	159,123
	Subtotal	361,661	783,427

	Region	No. of policies	Reinsurance claims (million yen)
Kanto, Koshinetsu, Shizuoka	Ibaraki	106,700	156,260
	Tochigi	38,664	44,579
	Gunma	9,046	7,862
	Saitama	39,235	30,045
	Chiba	98,988	116,752
	Tokyo	104,086	97,033
	Kanagawa	25,481	21,400
	Niigata	1,558	1,391
	Yamanashi	4,881	3,105
	Nagano	417	575
	Shizuoka	1,074	802
	Subtotal	430,130	479,810
Other prefectures		437	397
Total		793,760	1,265,359

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	22,866	206,483	13,155	43,355	36,021	249,839
Half loss	64,769	302,727	75,645	120,923	140,414	423,651
Partial loss	193,705	102,255	46,365	7,681	240,070	109,937
Total	281,340	611,467	135,165	171,960	416,505	783,427

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	5,009	46,944	686	2,227	5,695	49,171
Half loss	33,608	160,853	34,457	61,098	68,065	221,952
Partial loss	322,276	192,583	98,183	18,224	420,459	210,808
Total	360,893	400,381	133,326	81,550	494,219	481,932

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.

2016 KUMAMOTO EARTHQUAKES

We offer our deepest sympathy to all those affected by the 2016 Kumamoto Earthquakes. JER, 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 affected by these earthquakes.

SUMMARY OF THE EARTHQUAKES

(1) First earthquake
Date and Time: April 14, 2016, 21:26 JST
Hypocenter (depth) and magnitude:
Place: Kumamoto District, Kumamoto Prefecture (N32.445, E130.485) at a depth of around 11km (tentative)
Scale: Magnitude of 6.5 (tentative)

Seismic Intensity Scale: 7 in Kumamoto (Mashikimachi-Miyazono), Kumamoto Prefecture

(2) Second earthquake
Date and Time: April 16, 2016, 01:25 JST
Hypocenter (depth) and magnitude:
Place: Kumamoto District, Kumamoto Prefecture (N32.452, E130.457) at a depth of around 12km (tentative)
Scale: Magnitude of 7.3 (tentative)

Seismic Intensity Scale: 7 in Mashiki, Nishihara, Kumamoto Prefecture

PAYMENT OF EARTHQUAKE INSURANCE

Industry response

The General Insurance Association of Japan (the "GIAJ") strengthened the system for dealing with claims due to the 2016 Kumamoto Earthquakes and established an Earthquake Insurance Central Command at the GIAJ headquarters (Chiyoda Ward, Tokyo). The GIAJ also established a local base in Kumamoto, Kumamoto Prefecture to reinforce the system for dealing with claims locally.

Earthquake insurance response since the earthquakes to the present

April 15, 2016	The GIAJ Chairman's message to all affected by the 2016 Kumamoto Earthquake
	Industry Response to the 2016 Kumamoto earthquake
	Implementation of special measures due to the 2016 Kumamoto Earthquake
April 18, 2016	Notification of general insurance helpline for all member companies
	GIAJ reinforces the 2016 Kumamoto Earthquake response
	Additional special measures following the 2016 Kumamoto Earthquake
April 20, 2016	Actions being taken for the prompt payment of earthquake insurance claims
April 25, 2016	Number of earthquake insurance accidents dealt with due to the 2016 Kumamoto earthquake
April 26, 2016	The GIAJ Chairman Hisahito Suzuki visits/plans to visit the affected areas
	Additional special measures following the 2016 Kumamoto Earthquake (Part 2)
April 28, 2016	Donations to those affected by the 2016 Kumamoto Earthquake
May 11, 2016	Key figures related to insurance claims due to the 2016 Kumamoto Earthquake as of May 9, 2016
May 13, 2016	Introduction of toll free number for general insurance policy inquiries
May 18, 2016	Key figures related to insurance claims due to the 2016 Kumamoto Earthquake as of May 16, 2016
May 25, 2016	Key figures related to insurance claims due to the 2016 Kumamoto Earthquake as of May 23, 2016
June 1, 2016	Key figures related to insurance claims due to the 2016 Kumamoto Earthquake as of May 30, 2016
June 9, 2016	Key figures related to insurance claims due to the 2016 Kumamoto Earthquake as of June 6, 2016
June 16, 2016	Key figures related to insurance claims due to the 2016 Kumamoto Earthquake as of June 13, 2016
June 23, 2016	Key figures related to insurance claims due to the 2016 Kumamoto Earthquake as of June 20, 2016
June 30, 2016	Key figures related to insurance claims due to the 2016 Kumamoto Earthquake as of June 27, 2016

KEY FIGURES RELATED TO INSURANCE CLAIMS

As of June 27, 2016: The figures below were gathered from both domestic and foreign insurance companies.

Region/Prefecture	Number of inquiries (*1)	Number of settled cases (*2)	Number of claim payments	Total amount of claims paid (in thousands of yen)
Fukuoka	15,875	14,273	9,976	6,388,864
Saga	2,474	2,162	1,549	1,050,806
Nagasaki	693	628	419	252,587
Kumamoto	211,114	201,778	186,684	312,006,363
Oita	13,371	12,312	9,979	8,321,410
Miyazaki	387	336	216	187,700
Kagoshima	330	297	165	85,971
Other prefectures	621	549	305	238,350
Total	244,865	232,335	209,293	328,532,051

*1: The number of inquiries includes the number of cases where insurance companies received requests for damage investigations, inquiries about earthquake insurance coverage, and requests for advice on policyholder contracts. The number includes inquiries for both buildings and contents.

*2: The number of settled cases includes those cases where claims were paid as well as those where claims were withdrawn as a result of actual investigations. It also includes cases that were resolved when insurance companies received inquiries.

(Source: The GIAJ website)

STATISTICS

Reinsurance claims paid in fiscal 2015

Reinsurance claims paid in fiscal 2015 amounted to 8.2 billion yen, including earthquake reinsurance claims paid to cover the 2011 off the Pacific coast of Tohoku Earthquake. In terms of numbers, 12,012 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	7,494	5,250
2. Ogasawara	May 30, 2015	8.1	766	582
3. Nagano-ken Hokubu	November 22, 2014	6.7	464	351
4. Saitama-ken Hokubu	May 25, 2015	5.5	482	312
5. Ibaraki-ken Nanbu	September 16, 2014	5.6	369	238
Other earthquakes	—	—	2,437	1,478
Total	—	—	12,012	8,214

The percentage of households purchasing earthquake insurance in areas at risk of major earthquakes

(As of March 31, 2016)

Earthquake (Region name)	No. of households (A) (1,000 households)	No. of policies (B) (1,000 policies)	Percentage of households with insurance (B/A) (%)	Probability that an earthquake could occur within the next 30 years
Great Kanto	25,472	8,232	32.3	Nearly 0%–5%
Tokyo metropolitan	17,992	5,965	33.2	About 70%
Nankai trough	43,352	13,148	30.3	About 70%

Note 1: JER prepared the number of policies, assuming that major prefectures were stricken, based on the preliminary figures as of the end of fiscal 2014 from the General Insurance Rating Organization of Japan that were published on June 22, 2015.

2: The probability that an earthquake could occur within the next 30 years is based on the 2015 version of the National Seismic Hazard Maps for Japan of the Headquarters for Earthquake Research Promotion of the Japanese government.
The probability of a Great Kanto Earthquake is that of a magnitude 8 earthquake along the Sagami Trough. The probability of an inland earthquake in Tokyo metropolitan area is that of a magnitude 7 earthquake to be caused by a sinking plate along the Sagami Trough.

TOP 20 EARTHQUAKES AS TO REINSURANCE CLAIMS PAID

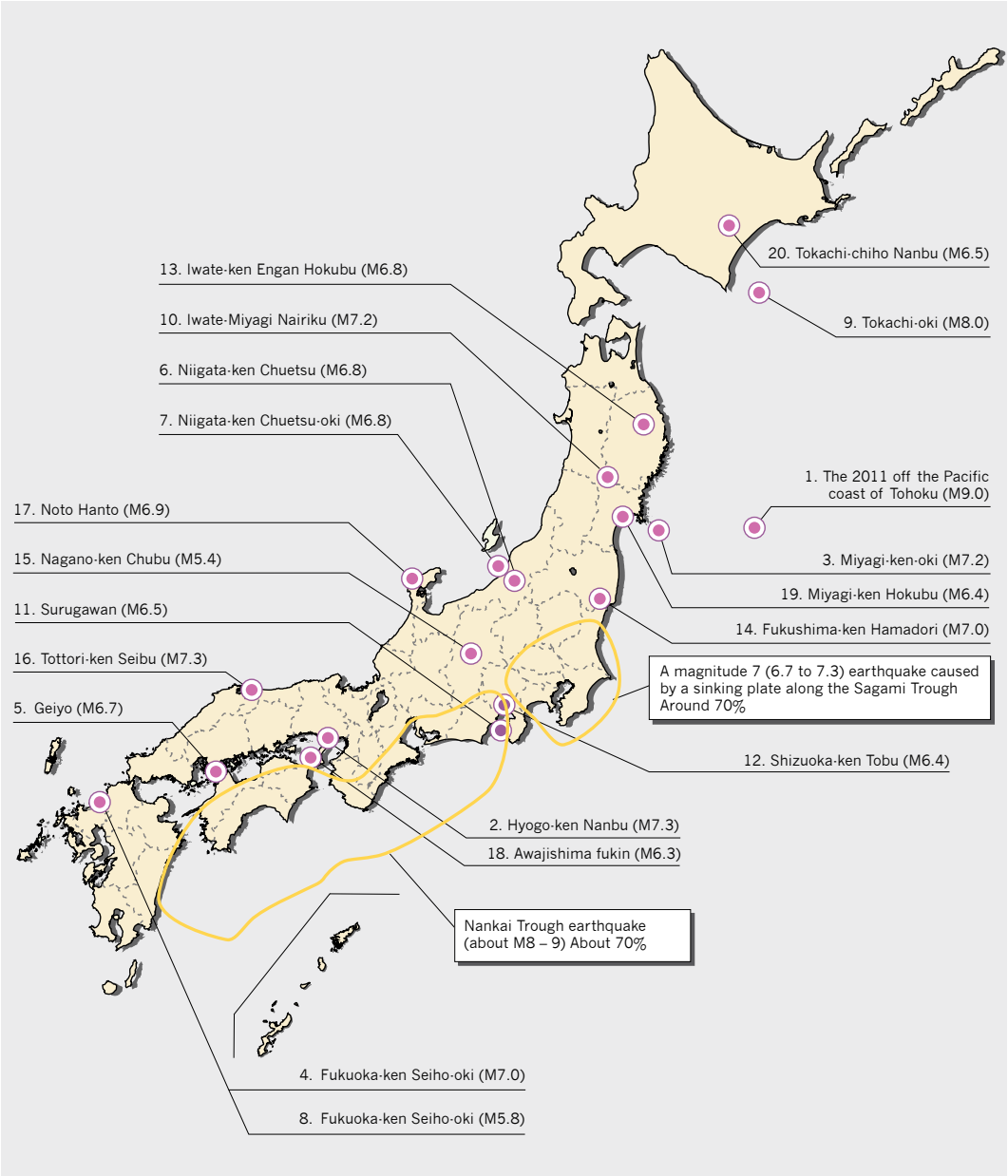
See the table below for the top 20 earthquakes with respect to reinsurance claims paid since the earthquake insurance was established.

(As of March 31, 2016)

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	801,254	1,270,610
2. Hyogo-ken Nanbu	January 17, 1995	7.3	65,427	78,346
3. Miyagi-ken-oki	April 7, 2011	7.2	30,998	32,388
4. Fukuoka-ken Seiho-oki	March 20, 2005	7.0	22,063	16,971
5. Geiyo	March 24, 2001	6.7	24,452	16,941
6. Niigata-ken Chuetsu	October 23, 2004	6.8	12,608	14,897
7. Niigata-ken Chuetsu-oki	July 16, 2007	6.8	7,866	8,248
8. Fukuoka-ken Seiho-oki	April 20, 2005	5.8	11,337	6,429
9. Tokachi-oki	September 26, 2003	8.0	10,553	5,990
10. Iwate-Miyagi Nairiku	June 14, 2008	7.2	8,276	5,545
11. Suruga-wan	August 11, 2009	6.5	9,500	5,155
12. Shizuoka-ken Tobu	March 15, 2011	6.4	5,303	4,631
13. Iwate-ken Engan Hokubu	July 24, 2008	6.8	7,754	3,972
14. Fukushima-ken Hamadori	April 11, 2011	7.0	2,370	3,678
15. Nagano-ken Chubu	June 30, 2011	5.4	2,971	3,310
16. Tottori-ken Seibu	October 6, 2000	7.3	4,079	2,869
17. Noto Hanto	March 25, 2007	6.9	3,306	2,732
18. Awajishima fukin	April 13, 2013	6.3	2,922	2,328
19. Miyagi-ken Hokubu	July 26, 2003	6.4	2,543	2,172
20. Tokachi-chiho Nanbu	February 2, 2013	6.5	4,248	2,161

Note 1: After the 2011 Great East Japan Earthquake, in accordance with our reinsurance scheme at the time, the government paid 577,805 million yen and private non-life insurance companies paid 692,805 million yen.
2: After the Hyogo-ken Nanbu Earthquake in 1995, in accordance with our reinsurance scheme at the time, the government paid 6,173 million yen and private non-life insurance companies paid 72,173 million yen.

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 Nankai Trough earthquake could occur within the next 30 years announced by the Headquarters for Earthquake Research Promotion of the government are also included.



Financial Section

FINANCIAL REVIEW

Business development, results, etc.

Business development, results, etc.

During fiscal 2015, the Japanese economy as a whole came to a standstill amid weak foreign demand caused by downturn in the world economy, especially emerging economies, despite firm domestic demand on the back of low crude oil prices and improved employment conditions under the large-scale monetary easing policy.

Earthquake insurance premiums grew from the previous fiscal year due to the impact of higher premium rates following premium rate revisions in July, 2014 and last-minute demand for earthquake insurance policies associated with revision of fire insurance in October 2015. Earthquake insurance payouts and loss adjustment expenses decreased from the previous fiscal year, reflecting gradual reduction in insurance payouts for the Great East Japan Earthquake in 2011.

Looking at asset management, earnings from investments fell below the level posted in the previous fiscal year, reflecting the advanced redemption of high-yield bonds under the sustained condition of low interest rates.

In this environment, we launched our fourth medium-term business plan, "Strengthening Arrangements for Earthquake Reinsurance Payouts" covering the three-year period from April 2015. We pushed ahead with initiatives to reinforce business continuity management (BCM) to ensure our readiness for earthquake reinsurance payout, our most important mission.

During fiscal 2015, the first fiscal year under the plan, we began steadily implementing measures in areas such as the development of BCM to prepare for an inland earthquake in the Tokyo metropolitan area and information security measures.

Summary of earthquake insurance results

① Net premiums written and net claims paid

In the fiscal year under review, net premiums written rose sharply to 121.9 billion yen (up 11.9% year on year) as a result of growth in assumed reinsurance premiums. Meanwhile, net claims paid came to 5.5 billion yen (down 41.6% year on year), reflecting factors such as the Great East Japan Earthquake in 2011.

② Risk reserves and underwriting reserves

Risk reserves added totaled 53.8 billion yen (up 11.2% year on year), consisting of net premiums written of 52.6 billion yen, calculated by deducting assumed reinsurance commissions from net premiums written, and gains on investments of 1.1 billion yen.

Risk reserves at the end of the fiscal year under review came to 464.5 billion yen (up 11.4% year on year) as a result of the reversal of the provision for outstanding claims of 0.4 billion yen to risk reserves and the withdrawal from the reserves in the past year of net claims paid of 5.5 billion yen as stated above, loss assessment expenses of 0.8 billion yen, and advertising and publicity expenses of 0.3 billion yen.

Underwriting reserves at the end of the fiscal year under review amounted to 627.3 billion yen (up 12.7% year on year) as a result of the addition of unearned premium reserves to the risk reserves stated above.

③ Risk reserves of direct insurance companies

A total of 4.8 billion yen (up 11.0% year on year), consisting of net premiums written and gains on investments, was added to the risk reserves of direct insurance companies recorded as entrusted reserves. The risk reserves of direct insurance companies at the end of the fiscal year under review came to 78.1 billion yen (up 4.6% year on year) as a result of the withdrawal of advertising and publicity expenses of 0.8 billion yen.

Outline of investments

Medium- to long-term domestic interest rates remained low due to the Bank of Japan's sustained policy of quantitative and qualitative monetary easing. The adoption of negative interest rates announced by the Bank of Japan in January this year added momentum to the interest rate decline.

Looking at exchange rates, the yen gradually strengthened against the US dollar amid speculation that the interest rate hike in the US would be delayed, despite differences in the monetary policies of Japan, where easy money continued, and the United States, which aimed to tighten credit. Meanwhile, the yen strengthened against the euro due to sovereign debt problems and political disarray. 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 1.1 billion yen in the business account and 0.2 billion yen in the entrusted reserves account. Consequently, investment assets totaled 690.2 billion yen at the end of the fiscal year under review.

Profit and loss for the fiscal year under review

Interest and dividend income in the capital account fell sharply and was not enough to cover account expenses. As a result, pre-tax profit turned negative, resulting in a net loss for the fiscal year under review of less than a million yen.

INDICATORS SHOWING THE MAIN RESULTS OVER THE LAST FIVE FISCAL YEARS

(Yen in millions)

Division \ Fiscal Year	2011	2012	2013	2014	2015
Net premiums written Percentage change over the previous term	83,671 17.0%	92,996 11.1%	92,248 (0.8%)	108,994 18.2%	121,986 11.9%
Net claims paid Percentage change over the previous term	196,625 18,927.3%	31,607 (83.9%)	15,010 (52.5%)	9,563 (36.3%)	5,589 (41.6%)
Ordinary income Percentage change over the previous term	286,812 63.1%	110,370 (61.5%)	104,703 (5.1%)	119,822 14.4%	129,107 7.7%
Ordinary expenses Percentage change over the previous term	286,723 63.9%	110,176 (61.6%)	104,509 (5.1%)	119,818 14.6%	129,107 7.8%
Ordinary profit Percentage change over the previous term	89 (91.0%)	193 117.5%	194 0.3%	3 (98.2%)	0 (98.4%)
Net income (loss) Percentage change over the previous term	(5) (239.9%)	4 –	(82) (2,045.2%)	3 –	(0) (115.6%)
Common stock Sum of shares issued	1,000 2 mil. shares	1,000 2 mil. shares	1,000 2 mil. shares	1,000 2 mil. shares	1,000 2 mil. shares
Net assets	1,631	1,633	1,544	1,543	1,542
Total assets	509,498	536,808	577,305	640,137	709,408
Underwriting reserves Percentage change over the previous term	430,700 (16.5%)	461,480 7.1%	499,274 8.2%	556,727 11.5%	627,345 12.7%
Of the balance, risk reserves Percentage change over the previous term	331,499 (21.9%)	352,830 6.4%	378,041 7.1%	417,056 10.3%	464.584 11.4%
Loans Percentage change over the previous term	– –	– –	– –	– –	– –
Securities Percentage change over the previous term	448,120 (44.3%)	476,979 6.4%	525,161 10.1%	391,034 (25.5%)	401,751 2.7%
Non-consolidated solvency-margin ratio	120.8%	160.0%	344.9%	354.5%	392.1%
Dividend propensity	–	–	–	–	–
No. of employees	26	27	26	29	28

Note:
JER's solvency-margin ratio will not be used as a criterion for the administrative authorities' order for improvement. For details, please refer to page 54.

❶ Indicators relating to insurance underwriting

SUMMARY OF OPERATIONS

Item: earthquake

1. Net premiums written

(Yen in millions)

Division \ Fiscal Year	2013	2014	2015
Premiums written	197,919	222,014	245,353
Return premiums	3,271	4,341	6,708
Assumed net premiums written (A)	194,628	217,661	238,645
Reinsurance premiums ceded (B)	102,379	108,666	116,659
Net premiums written (A – B)	92,248	108,994	121,986

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

2. Rate of premiums written by domestic and overseas contracts

Division \ Fiscal Year	2013	2014	2015
Domestic contract	100%	100%	100%

3. Net claims paid

(Yen in millions)

Division \ Fiscal Year	2013	2014	2015
Assumed net claims paid (A)	22,014	13,287	8,214
Reinsurance claims recovered (B)	7,003	3,723	2,625
Net claims paid (A – B)	15,010	9,563	5,589

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

4. Net loss ratio, net expense ratio and their combined ratio

(Yen in millions)

Division \ Fiscal Year	2013	2014	2015
Net loss ratio	18.7%	10.1%	5.3%
Underwriting expenses	41,134	44,026	46,606
Insurance related operating, general and administrative expenses	722	710	725
Commissions and brokerage fees	40,411	43,315	45,880
Net expense ratio	44.6%	40.4%	38.2%
Combined ratio	63.3%	50.5%	43.5%

Notes:
1. Net loss ratio: (Net claims paid + loss adjustment expenses) / net premiums written
2. Net expense ratio: (Commissions and brokerage fees + Insurance-related operating and general administrative expenses) / net premiums written
3. Combined ratio: Net loss ratio + net expense ratio

5. Rate of damage occurrence, the expenses ratio and rate of sum total before ceded insurance deduction

Not applicable

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

(Yen in millions)

Division \ Fiscal Year	2013	2014	2015
Underwriting income	96,358	112,468	123,681
Underwriting expenses	95,447	111,757	122,956
Operating and general administrative expenses	722	710	725
Other income and expenses	(188)	–	–
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	2013	2014	2015
No. of reinsurers that ceded insurance contracts	11	10	10
Rate of top five reinsurers' ceded insurance premiums	81.9%	90.4%	91.5%

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

Not applicable

10. Contractor dividend

Not applicable

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.

❷ 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

(Yen in millions)

Division \ Year	As of the end of fiscal 2013	Percentage distribution (%)	As of the end of fiscal 2014	Percentage distribution (%)	As of the end of fiscal 2015	Percentage distribution (%)
Deposits	23,892	4.1	34,119	5.3	189,215	26.7
Call loans	14,634	2.5	84,898	13.3	4,668	0.7
Monetary receivables bought	–	–	113,991	17.8	94,596	13.3
Money trusts	–	–	–	–	–	–
Securities	525,161	91.0	391,034	61.1	401,751	56.6
Buildings	31	0.0	28	0.0	27	0.0
Total of investments assets	563,719	97.6	624,072	97.5	690,258	97.3
Total assets	577,305	100.0	640,137	100.0	709,408	100.0

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

(Yen in millions)

Division \ Fiscal Year	2013	Yield (%)	2014	Yield (%)	2015	Yield (%)
Deposits	23	0.09	28	0.10	34	0.06
Call loans	7	0.04	23	0.03	8	0.02
Monetary receivables bought	–	–	15	0.10	144	0.08
Money trusts	–	–	–	–	–	–
Securities	3,248	0.66	2,642	0.59	2,280	0.62
Buildings	–	–	–	–	–	–
Total	3,279	0.61	2,710	0.47	2,468	0.38

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. Asset management yield (realized yield)

(Yen in millions)

Division \ Fiscal Year	2013			2014			2015		
	Amount of numerator	Amount of denominator	Yield on working assets (%)	Amount of numerator	Amount of denominator	Yield on working assets (%)	Amount of numerator	Amount of denominator	Yield on working assets (%)
Deposits	23	24,974	0.09	28	29,824	0.10	34	60,181	0.06
Call loans	7	19,385	0.04	23	77,058	0.03	8	38,187	0.02
Monetary receivables bought	–	–	–	15	15,513	0.10	144	184,504	0.08
Money trusts	–	–	–	–	–	–	–	–	–
Securities	3,346	490,629	0.68	2,642	450,256	0.59	2,475	368,634	0.67
Public and corporate bonds	1,054	356,649	0.30	791	312,640	0.25	818	250,382	0.33
Stocks	–	–	–	–	–	–	–	–	–
Foreign securities	2,292	133,980	1.71	1,850	137,615	1.34	1,657	118,251	1.40
Other securities	–	–	–	–	–	–	–	–	–
Loans	–	–	–	–	–	–	–	–	–
Buildings	–	33	–	–	31	–	–	28	–
Derivatives	(7,336)	–	–	(6,447)	–	–	3,954	–	–
Others	7,691	–	–	6,153	–	–	(4,494)	–	–
Total	3,731	535,023	0.70	2,416	572,684	0.42	2,124	651,536	0.33

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 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)

(Yen in millions)

Division \ Fiscal Year	2013			2014			2015		
	Amount of numerator	Amount of denominator	Yield on working assets (%)	Amount of numerator	Amount of denominator	Yield on working assets (%)	Amount of numerator	Amount of denominator	Yield on working assets (%)
Deposits	23	24,974	0.09	28	29,824	0.10	34	60,181	0.06
Call loans	7	19,385	0.04	23	77,058	0.03	8	38,187	0.02
Monetary receivables bought	–	–	–	15	15,513	0.10	144	184,504	0.08
Money trusts	–	–	–	–	–	–	–	–	–
Securities	2,182	494,802	0.44	3,030	453,264	0.67	2,800	372,030	0.75
Public and corporate bonds	898	358,533	0.25	1,253	314,369	0.40	2,014	252,572	0.80
Stocks	–	–	–	–	–	–	–	–	–
Foreign securities	1,284	136,268	0.94	1,777	138,895	1.28	786	119,458	0.66
Other securities	–	–	–	–	–	–	–	–	–
Loans	–	–	–	–	–	–	–	–	–
Buildings	–	33	–	–	31	–	–	28	–
Derivatives	(7,336)	–	–	(6,447)	–	–	3,954	–	–
Others	7,691	–	–	6,153	–	–	(4,494)	–	–
Total	2,567	539,196	0.48	2,804	575,693	0.49	2,449	654,932	0.37

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 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

(Yen in millions)

Division \ Year	As of the end of fiscal 2013		As of the end of fiscal 2014		As of the end of fiscal 2015	
		Percentage distribution (%)		Percentage distribution (%)		Percentage distribution (%)
Foreign currency denominated						
Foreign public and corporate bonds	70,357	49.7	93,638	64.8	76,404	69.8
Yen denominated						
Foreign public and corporate bonds	71,164	50.3	50,763	35.2	33,118	30.2
Total	141,522	100.0	144,401	100.0	109,523	100.0
Yield on foreign loans & investments						
Investment assets yield (income yield)	1.71%		1.34%		1.39%	
Assets management (realized yield)	1.71%		1.34%		1.40%	
Market-price based overall yield (for reference)	0.94%		1.28%		0.66%	

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.

❸ Information on the non-consolidated solvency-margin ratio (the ratio that shows the ability to pay out claims)

(Yen in millions)

Division		Year	As of the end of fiscal 2014	As of the end of fiscal 2015
(A)	Total amount of non-consolidated solvency-margin		421,385	469,361
	Common stock, etc.		1,539	1,539
	Price fluctuation reserves		5	6
	Risk reserves		–	–
	Catastrophe reserves		417,056	464,584
	Reserves for ordinary bad debts		–	–
	Unrealized gain/loss on available-for-sale securities / Deferred gain/loss on hedges		2,783	3,231
	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		–	–
(B)	Total amount of non-consolidated risk $\sqrt{(R1 + R2)^2 + (R3 + R4)^2} + R5 + R6$		237,717	239,352
	General underwriting risk (RI)		–	–
	Underwriting risk in third-area insurance (R2)		–	–
	Anticipated rate of return risk (R3)		–	–
	Investment risk (R4)		8,355	9,958
	Management risk (R5)		4,661	4,693
	Catastrophe risk (R6)		224,700	224,700
(C)	Non-consolidated solvency-margin ratio [(A) / { (B) x 1 / 2 }] x 100		354.5%	392.1%

Note:
Amounts and other figures presented above are calculated on the basis of the provisions of Article 86 and Article 87 of the Enforcement Regulations for the Insurance Business Act and Notification No. 50 of the Ministry of Finance issued in 1996.

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:** the risk that may arise for saving-type insurance if the actual yield from operations is lower than it was when calculating depository insurance premiums.
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

❶Financial statements

1. Balance sheets

(ASSETS)

(Yen in millions)

Item \ Fiscal Year	2014 (As of March 31, 2015)	2015 (As of March 31, 2016)
	Amount	Amount
Cash and deposits	**34,119**	**189,215**
Deposits	34,119	189,215
Call loans	**84,898**	**4,668**
Monetary receivables bought	**113,991**	**94,596**
Securities	**391,034**	**401,751**
Government bonds	181,570	93,829
Municipal bonds	2,891	43,526
Corporate bonds	62,170	154,871
Foreign securities	144,401	109,523
Tangible fixed assets	**91**	**66**
Buildings	28	27
Other tangible fixed assets	62	39
Intangible fixed assets	**167**	**151**
Software	165	150
Other intangible fixed assets	1	1
Other assets	**15,834**	**18,957**
Reinsurance accounts receivable	12,660	12,357
Accounts receivable	84	–
Uncollected income	1,438	1,227
Deposits	47	46
Suspense payments	33	45
Derivatives	1,568	5,280
Total assets	**640,137**	**709,408**

(LIABILITIES)

(Yen in millions)

Item \ Fiscal Year	2014 (As of March 31, 2015)	2015 (As of March 31, 2016)
	Amount	Amount
Underwriting funds	**558,377**	**628,497**
Outstanding claims	1,650	1,152
Underwriting reserves	556,727	627,345
Entrusted reserves	**63,012**	**67,102**
Other liabilities	**13,629**	**8,364**
Reinsurance accounts payable	7,764	8,071
Income taxes payable	167	185
Deposits payable	3	3
Accrued amounts payable	100	104
Derivatives	5,593	–
Reserve for retirement benefits	**130**	**145**
Reserve for directors' retirement benefits	**22**	**8**
Reserve for bonus payments	**21**	**21**
Reserves under the special law	**5**	**6**
Reserve for price fluctuation	5	6
Net unrealized gains on available-for-sale securities of earthquake insurance	**3,390**	**3,717**
Deferred tax liabilities	**1**	**1**
Total liabilities	**638,593**	**707,865**

(NET ASSETS)

(Yen in millions)

Item \ Fiscal Year	2014 (As of March 31, 2015)	2015 (As of March 31, 2016)
	Amount	Amount
Common stock	**1,000**	**1,000**
Retained earnings	**545**	**544**
Legal reserve of retained earnings	1	1
Other legal reserve of retained earnings	544	543
Special reserves	17	17
Special price fluctuation reserves	39	39
Retained earnings carried forward	487	487
Treasury Stock	**(5)**	**(5)**
Total shareholders' equity	**1,539**	**1,539**
Net unrealized gains on available-for-sale securities	**4**	**3**
Total valuation and translation adjustments	**4**	**3**
Total net assets	**1,543**	**1,542**
Total liabilities and net assets	**640,137**	**709,408**

Notes for fiscal 2015

1. Appraisal standards and method of securities, and method of indication
   (1) Of available-for-sale securities, those to which the market price is applicable is appraised according to the market price at term end.
   (2) 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 Net unrealized gains on other securities of earthquake insurance in Liabilities on the form attached to the Enforcement Rules of Insurance Business Act. For other unrealized gains, the amount after tax effect deduction is processed entirely according to the direct capital injection method and indicated in Shareholders' Equity. The calculation of the sales price is based on the moving average method.

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

3. 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 estimated 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

Reserve for bad debts is 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 planning and controller 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) Reserve for retirement benefits

For employees' retirement and severance benefits, reserve is appropriated according to estimated retirement allowance liabilities at the end of the term.

Retirement allowance liabilities are 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) Reserve for directors' retirement benefits

For reserve 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) Reserve for bonus payments

Reserve for bonus payments is calculated according to the standards for the estimated bonuses payable as of the end of the fiscal year under review.

(5) Reserve for price fluctuation

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

7. Financial instruments and fair values of financial instruments

(1) Situation of financial instruments

We mainly hold highly rated short- and medium-term Japanese and foreign bonds and short-term financial instruments in preparation for reinsurance payouts. We manage assets by attaching top priority to liquidity and safety and giving additional consideration to profitability. It is our policy to engage in derivatives trading or forward exchange contracts to reduce the market risks of foreign-currency receivables associated with exchange fluctuations, within the limits of actual demand. In addition, we maintain an understanding of market risks, credit risks and liquidity risks and manage current quotations and credit information on a regular basis in this regard.

(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, 2016.

(Yen in millions)

	Balance sheet amount	Fair value	Difference
(i) Cash and deposits	189,215	189,215	–
(ii) Call loans	4,668	4,668	–
(iii) Monetary receivables bought	94,596	94,596	–
(iv) Securities Available-for-sale securities	401,751	401,751	–
Total assets	690,231	690,231	–
(v) Derivatives* to which hedge accounting is not applied	5,280	5,280	–
Derivatives total	5,280	5,280	–

*Derivatives recorded in other assets and other liabilities.
Net claims and debts derived from derivatives represent the net amounts, and items whose net balance becomes debts are stated in brackets.

Note: Methods for calculating the fair values of financial instruments

(i) Cash and deposits
Cash and deposits are settled in the short term and their fair values are based on 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 based on their carrying values as their fair values and carrying values are similar.

(iii) Monetary receivables bought
Monetary receivables bought are settled in the short term and their fair values are based on their carrying values as their fair values and carrying values are similar.

(iv) Securities
The fair values of securities are based on their market prices at term end, which are reference prices in the trading statistics of the Japan Securities Dealers Association or market prices obtained from outside vendors or brokers.

(v) Derivatives
The fair values of derivatives are determined by prices offered by correspondent financial institutions.

8. Taxes are included when preparing accounts for consumption tax and other items.

9. Risk reserves contained in Underwriting reserves have been deposited based on instructions for the calculation of underwriting 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.

10. The accumulated depreciation of tangible fixed assets is 161 million yen.

11. See below for a breakdown of outstanding claims.

(Yen in millions)

Outstanding claims (before the deduction of outstanding reinsurance claims)	1,764
Outstanding reinsurance claims related to the above claims	611
Net outstanding claims	1,152

12. Total deferred tax assets amount to 261 million yen, while total deferred tax liabilities come to 1 million yen. Deferred tax assets are all deducted from the total amount for a valuation reserve.
A breakdown of deferred tax assets reveals tax loss carried forward of 157 million yen, a reserve for retirement benefits of 40 million yen, unpaid business taxes of 37 million yen and unpaid special local corporate tax of 15 million yen. Deferred tax liabilities resulted mainly from unrealized gains on securities of 1 million yen.

13. Corrections made to the amounts of deferred tax assets and deferred tax liabilities in response to changes in corporate and other tax rates are as follows: Corporate and other tax rates fell from each fiscal year commencing on or after April 1, 2016 as a result of the promulgation of the Act on Partial Revision of the Income Tax Act, Etc. (Act No. 15 of 2016) on March 29, 2016. With this change, the legal effective tax rate used for calculating deferred tax assets and deferred tax liabilities fell from the previous level of 28.85% to 28.24% for temporary differences and the like expected for resolution in the fiscal year commencing on April 1, 2016 and in the fiscal year commencing on April 1, 2017 and to 28.00% for temporary differences and the like expected for resolution in or after the fiscal year commencing on April 1, 2018. Deferred tax liabilities decreased less than 1 million yen as a result of this tax rate change. The tax cut produced no effect on net income.

14. Net assets per share are 775.61 yen. The basis for this calculation is that net assets are 1,542 million yen, net assets accrued from ordinary shares are 1,542 million yen and the number of ordinary shares at the end of the term is 1.988 million.

15. The impact of the 2016 Kumamoto Earthquake that occurred on April 14, 2016 on JER's financial position for the next fiscal year and beyond has yet to be determined. Insurance payouts and loss adjustment expenses due to the earthquake will not affect net income for the next fiscal year and beyond due to the reversal of risk reserves.

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

2. Statements of income

(Yen in millions)

Item \ Fiscal Year	2014 (from April 1, 2014 to March 31, 2015) Amount	2015 (from April 1, 2015 to March 31, 2016) Amount
Ordinary income	**119,822**	**129,107**
Underwriting income	**112,468**	**123,681**
Net premiums written	108,994	121,986
Investment income on savings premiums	1,544	1,198
Reversal of outstanding claims	1,929	497
Investment income	**7,353**	**5,424**
Interest and dividend income	2,710	2,468
Gains on sales of securities	–	194
Gains on derivatives	–	3,954
Foreign exchange gains	6,180	–
Other investment income	7	4
Transfer of investment income on savings premiums	(1,544)	(1,198)
Other ordinary income	**0**	**1**
Ordinary expenses	**119,818**	**129,107**
Underwriting expenses	**111,757**	**122,956**
Net claims paid	9,563	5,589
Loss adjustment expenses	1,425	868
Commissions and brokerage fees	43,315	45,880
Provision of underwriting reserves	57,453	70,617
Investment expenses	**6,481**	**4,498**
Losses on derivatives	6,447	–
Foreign exchange losses	–	4,470
Other investment expenses	34	28
Operating, general and administrative expenses	**1,322**	**1,394**
Other ordinary expenses	**257**	**257**
Interest paid	257	257
Ordinary profit	**3**	**0**
Extraordinary losses	**0**	**0**
Losses on disposal fixed assets	0	0
Provision of price fluctuation reserves	0	0
Net income (loss) before income taxes	**3**	**(0)**
Income taxes	**0**	**0**
Total income taxes	**0**	**0**
Net income (loss)	**3**	**(0)**

Notes for fiscal 2015

1. See below for a breakdown of net premiums written.

(Yen in millions)

Premiums written:	238,645
Reinsurance premiums ceded:	116,659
Net premiums written:	121,986

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

(Yen in millions)

Claims paid:	8,214
Reinsurance claims recovered:	2,625
Net claims paid:	5,589

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

(Yen in millions)

Provision of outstanding claims (before the deduction of outstanding reinsurance claims)	(694)
Provision of outstanding reinsurance claims related to the above claims	(197)
Net provision of outstanding claims	(497)

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

(Yen in millions)

Deposits:	34
Call loans:	8
Monetary receivables bought:	144
Securities:	2,280
Total:	2,468

5. Paper profit/loss involved in the losses on derivatives is a loss of 5,280 million yen.

6. Net income per share is 0.23 yen.
   The basis for this calculation is such that net income is 0 million yen, net income accrued from common stocks is 0 million yen and the term average number of common stocks amount to 1.988 million.

7. The legal effective tax rate at the end of the term is 28.85%, and the corporate tax burden after applying the tax effect is (157.52%). The difference is explained by the following breakdown: valuation reserve (51,004.21%), the amount of the write-off carried from publicity expenses related to risk reserves 51,124.32%.

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

3. Statements of cash flow

(Yen in millions)

Item \ Fiscal Year	2014 (from April 1, 2014 to March 31, 2015)	2015 (from April 1, 2015 to March 31, 2016)
	Amount	Amount
Cash flow from operating activities		
Net income before income taxes	3	(0)
Depreciation	97	82
Increase (decrease) in outstanding claims	(1,929)	(497)
Increase (decrease) in underwriting reserves	57,453	70,617
Increase (decrease) in entrusted reserves	3,769	4,089
Increase (decrease) in reserve for retirement benefits	14	15
Increase (decrease) in reserve for directors' retirement benefits	3	(13)
Increase (decrease) in reserve for bonus payments	1	(0)
Increase (decrease) in reserve for price fluctuation	0	0
Interest and dividend income	(2,710)	(2,468)
Losses (gains) on investment in securities	–	(194)
Foreign exchange losses (gains)	(5,906)	5,723
Losses (gains) on tangible fixed assets	0	0
Decrease (increase) in other assets (other than investment and financial activities related)	(1,198)	377
Increase (decrease) in other liabilities (other than investment and financial activities related)	99	311
Others	1,606	(9,288)
Subtotal	51,304	68,753
Interest and dividends received	4,483	4,211
Income taxes paid	(92)	–
Net cash provided by operating activities	55,694	72,965
Cash flow from investing activities		
Purchase of monetary receivables bought	(19,995)	(71,588)
Proceeds from sales and redemption of monetary receivables bought	–	19,997
Purchase of securities	(633,191)	(217,876)
Proceeds from sales and redemption of securities	772,089	200,414
Total investment assets activities	118,903	(69,052)
Total operating activities and investment assets activities	174,598	3,913
Acquisition of tangible fixed assets	(36)	(1)
Others	(76)	(40)
Net cash provided by investing activities	118,790	(69,094)
Cash flow in financing activities	–	–
Effect of exchange rate changes on cash and cash equivalents	–	–
Net increase (decrease) in cash and cash equivalents	174,485	3,870
Cash and cash equivalents at the beginning of the year	27,526	202,011
Cash and cash equivalents at the end of the year	202,011	205,882

Notes for fiscal 2015

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

(Yen in millions)

	(As of March 31, 2015)	(As of March 31, 2016)
Cash and deposits	34,119	189,215
Call loans	84,898	4,668
Monetary receivables bought	113,991	94,596
Securities	391,034	401,751
Deposits of a depository period over three months	(11,000)	(11,000)
Monetary receivables bought other than cash equivalents	(19,997)	(71,597)
Securities other than cash equivalent	(391,034)	(401,751)
Cash and cash equivalents	202,011	205,882

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

Fiscal 2014 (from April 1, 2014 to March 31, 2015)

(Yen in millions)

	Shareholder's equity								Valuation and translation adjustments		Total net assets
	Common stock	Retained earnings					Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Total valuation and translation adjustments	
		Legal reserve of retained earnings	Other legal reserve of retained earnings			Total retained earnings					
			Special reserves	Special price fluctuation reserves	Retained earnings carried forward						
Balance at the beginning of the period	1,000	1	17	39	484	542	(5)	1,536	7	7	1,544
Changes during the period											
Net income (loss)					3	3		3			3
Net changes other than shareholders' equity									(3)	(3)	(3)
Total changes					3	3		3	(3)	(3)	(0)
Balance at the end of the period	1,000	1	17	39	487	545	(5)	1,539	4	4	1,543

Fiscal 2015 (from April 1, 2015 to March 31, 2016)

(Yen in millions)

	Shareholder's equity								Valuation and translation adjustments		Total net assets
	Common stock	Retained earnings					Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Total valuation and translation adjustments	
		Legal reserve of retained earnings	Other legal reserve of retained earnings			Total retained earnings					
			Special reserves	Special price fluctuation reserves	Retained earnings carried forward						
Balance at the beginning of the period	1,000	1	17	39	487	545	(5)	1,539	4	4	1,543
Changes during the period											
Net income (loss)					(0)	(0)		(0)			(0)
Net changes other than shareholders' equity									(1)	(1)	(1)
Total changes					(0)	(0)		(0)	(1)	(1)	(1)
Balance at the end of the period	1,000	1	17	39	487	544	(5)	1,539	3	3	1,542

Notes for fiscal 2015

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

(Stock)

		Balance as of the end of fiscal 2014	Increase in fiscal 2015	Decrease in fiscal 2015	Balance as of the end of fiscal 2015
Issued stock	Ordinary stock	2,000,000	–	–	2,000,000
	Total	2,000,000	–	–	2,000,000
Treasury stock	Ordinary stock	11,400	–	–	11,400
	Total	11,400	–	–	11,400

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

5. Dividend per share and total assets per employee

(Yen in millions)

Division \ Fiscal Year	2013	2014	2015
Dividend per share	–	–	–
Net income (loss) per share	(41.63 yen)	1.53 yen	(0.23 yen)
Dividend propensity	–	–	–
Net assets per share	776.66 yen	776.41 yen	775.61 yen
Total assets per employee	22,204	22,073	24,462

Notes:

1. Net income (loss) per share comes from net income (loss) / term average number of shares
2. The number of treasury stock is deducted from producing information per share
3. The total assets per employee come from the total assets at the end of the term / number of employees at the end of the term.

❷ Details of assets and liabilities

1. Deposits

(Yen in millions)

Division \ Year	As of the end of fiscal 2013	As of the end of fiscal 2014	As of the end of fiscal 2015
Deposits	23,892	34,119	189,215
Ordinary deposits	3,832	559	155,655
Time deposits	20,060	33,560	33,560

2. Average balance and trading amount of commodity securities

Not applicable

3. Balance of securities by category and percentage distribution

(Yen in millions)

Division \ Year	As of the end of fiscal 2013	Percentage distribution (%)	As of the end of fiscal 2014	Percentage distribution (%)	As of the end of fiscal 2015	Percentage distribution (%)
Government bonds	378,735	72.1	181,570	46.4	93,829	23.4
Municipal bonds	–	–	2,891	0.7	43,526	10.8
Corporate bonds	4,904	0.9	62,170	15.9	154,871	38.5
Stocks	–	–	–	–	–	–
Foreign securities	141,522	26.9	144,401	36.9	109,523	27.3
Other securities	–	–	–	–	–	–
Total	525,161	100.0	391,034	100.0	401,751	100.0

4. Yield on securities held

(%)

Division \ Fiscal Year	2013	2014	2015
Investment assets yield (income yield)			
Public & corporate bonds	0.27	0.25	0.25
Stocks	–	–	–
Foreign securities	1.71	1.34	1.39
Other securities	–	–	–
Total	0.66	0.59	0.62
Assets management yield (realized yield)			
Public & corporate bonds	0.30	0.25	0.33
Stocks	–	–	–
Foreign securities	1.71	1.34	1.40
Other securities	–	–	–
Total	0.68	0.59	0.67
Market-price based overall yield (for reference)			
Public & corporate bonds	0.25	0.40	0.80
Stocks	–	–	–
Foreign securities	0.94	1.28	0.66
Other securities	–	–	–
Total	0.44	0.67	0.75

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 2014

(Yen in millions)

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	48,226	54,312	26,830	37,677	5,839	8,685	181,570
Municipal bonds	2,891	–	–	–	–	–	2,891
Corporate bonds	36,031	26,139	–	–	–	–	62,170
Stocks	–	–	–	–	–	–	–
Foreign securities	26,272	104,917	13,211	–	–	–	144,401
Other securities	–	–	–	–	–	–	–
Total	113,421	185,368	40,041	37,677	5,839	8,685	391,034

As of the end of fiscal 2015

(Yen in millions)

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	1,208	22,085	47,744	13,391	–	9,398	93,829
Municipal bonds	22,305	21,220	–	–	–	–	43,526
Corporate bonds	68,900	85,971	–	–	–	–	154,871
Stocks	–	–	–	–	–	–	–
Foreign securities	60,245	49,278	–	–	–	–	109,523
Other securities	–	–	–	–	–	–	–
Total	152,660	178,556	47,744	13,391	–	9,398	401,751

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

Not applicable

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

Not applicable

10. Credits classified in accordance with debtor classification

Not applicable

11. Self-appraisal of assets

We categorize 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 of March 31, 2015.

12. Tangible fixed assets by category

(Yen in millions)

Division \ Year	As of the end of fiscal 2013	As of the end of fiscal 2014	As of the end of fiscal 2015
Land	–	–	–
for underwriting	–	–	–
for investment	–	–	–
Buildings	31	28	27
for underwriting	31	28	27
for investment	–	–	–
Construction in progress	–	–	–
for underwriting	–	–	–
for investment	–	–	–
Total of property	31	28	27
for underwriting	31	28	27
for investment	–	–	–
Leased assets	–	–	–
Other tangible fixed assets	52	62	39
Total	84	91	66

13. Unearned claims paid

Not applicable

14. Special account

Not applicable

15. Underwriting funds

(Yen in millions)

Division \ Year	As of the end of fiscal 2013	As of the end of fiscal 2014	As of the end of fiscal 2015
Outstanding claims	3,579	1,650	1,152
Underwriting reserves	499,274	556,727	627,345
Risk reserves	378,041	417,056	464,584
Unearned premium reserves	119,727	139,671	162,760
Repayment reserves	1,505	–	–
Total	502,854	558,377	628,497

16. Level of underwriting reserves

There is no target contact.

17. Detailed listing of liability reserves

As of the end of fiscal 2014

(Yen in millions)

Division	Balance as of the end of fiscal 2013	Increase in fiscal 2014	Decrease in fiscal 2014	Balance as of the end of fiscal 2014
Reserve for ordinary bad debts	–	–	–	–
Reserve for individual bad debts	–	–	–	–
Reserve for specific foreign securities	–	–	–	–
Reserve for retirement benefits	116	19	5	130
Reserve for directors' retirement benefits	18	3	0	22
Reserve for bonus payments	20	21	20	21
Reserve for price fluctuation	5	0	–	5
Total	161	45	26	180

As of the end of fiscal 2015

(Yen in millions)

Division	Balance as of the end of fiscal 2014	Increase in fiscal 2015	Decrease in fiscal 2015	Balance as of the end of fiscal 2015
Reserve for ordinary bad debts	–	–	–	–
Reserve for individual bad debts	–	–	–	–
Reserve for specific foreign securities	–	–	–	–
Reserve for retirement benefits	130	22	7	145
Reserve for directors' retirement benefits	22	4	17	8
Reserve for bonus payments	21	21	21	21
Reserve for price fluctuation	5	0	–	6
Total	180	49	47	182

18. Detailed listing of shareholders' equity

Please refer to the statement of changes in shareholders' equity on page 60.

❸ Income and loss details

1. Gains on sales of securities by category

(Yen in millions)

Division \ Fiscal Year	2013	2014	2015
Government bonds	100	–	181
Foreign securities	–	–	12
Total	100	–	194

2. Losses on sales of securities by category

(Yen in millions)

Division \ Fiscal Year	2013	2014	2015
Government bonds	2	–	–
Foreign securities	–	–	–
Total	2	–	–

3. Losses on valuation of securities

Not applicable

4. Gains on disposal of fixed assets

Not applicable

5. Losses on disposal of fixed assets

(Yen in millions)

Division \ Fiscal Year	2013	2014	2015
Land	–	–	–
Buildings	–	–	–
Other tangible fixed assets	0	0	0
Total	0	0	0

6. Business expenses (inclusive of loss adjustment)

(Yen in millions)

Division \ Fiscal Year	2013	2014	2015
Personnel expenses	496	417	404
Non personnel expenses	2,773	2,037	1,527
Taxes	249	293	331
Commissions and brokerage fees	40,411	43,315	45,880
Total	43,931	46,063	48,144

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

7. Depreciation expenses by category

As of the end of fiscal 2014

(Yen in millions)

Type of asset	Acquisition cost	Depreciation in fiscal 2014	Aggregated depreciations	Balance as the end of fiscal 2014	Rate of aggregated depreciations %
Tangible fixed assets					
Buildings	101	2	72	28	71.6
for underwriting	101	2	72	28	71.6
for investment	–	–	–	–	–
Other tangible fixed assets	151	27	89	62	58.8
Total	253	29	162	91	63.9
Intangible fixed assets					
Software	415	67	249	165	60.1
Other intangible fixed assets	1	–	–	1	–
Total	416	67	249	167	59.9
Grand total	670	97	411	258	61.4

As of the end of fiscal 2015

(Yen in millions)

Type of asset	Acquisition cost	Depreciation in fiscal 2015	Aggregated depreciations	Balance as the end of fiscal 2015	Rate of aggregated depreciations %
Tangible fixed assets					
Buildings	85	1	58	27	68.1
for underwriting	85	1	58	27	68.1
for investment	–	–	–	–	–
Other tangible fixed assets	142	24	103	39	72.4
Total	228	25	161	66	70.8
Intangible fixed assets					
Software	294	56	144	150	48.9
Other intangible fixed assets	1	–	–	1	–
Total	295	56	144	151	48.7
Grand total	524	82	305	218	58.3

❹ 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 7 on the balance sheet (page 56).

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 2014

(Yen in millions)

Division	Type	Acquisition cost	Book value	Difference
Securities whose carrying amount exceeds their cost	Public & corporate bonds	152,926	155,186	2,259
	Stocks	–	–	–
	Foreign securities	127,162	138,778	11,615
	Others	–	–	–
	Subtotal	280,089	293,964	13,874
Securities whose carrying amount does not exceed their cost	Public & corporate bonds	91,516	91,446	(69)
	Stocks	–	–	–
	Foreign securities	5,780	5,623	(157)
	Others	113,991	113,991	–
	Subtotal	211,288	211,061	(226)
Total		491,378	505,026	13,648

At the end of fiscal 2015

(Yen in millions)

Division	Type	Acquisition cost	Book value	Difference
Securities whose carrying amount exceeds their cost	Public & corporate bonds	250,668	254,073	3,405
	Stocks	–	–	–
	Foreign securities	78,358	83,798	5,440
	Others	–	–	–
	Subtotal	329,026	337,872	8,846
Securities whose carrying amount does not exceed their cost	Public & corporate bonds	38,173	38,153	(20)
	Stocks	–	–	–
	Foreign securities	26,301	25,724	(576)
	Others	94,596	94,596	–
	Subtotal	159,071	158,475	(596)
Total		488,098	496,347	8,249

Note:
On the balance sheet, commercial paper treated as monetary receivables bought is included in Other.

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

(Yen in millions)

Type	Fiscal 2014			Fiscal 2015		
	Sales price	Total of gains on sale	Total of losses on sale	Sales price	Total of gains on sale	Total of losses on sale
Public & corporate bonds	–	–	–	40,210	181	–
Stocks	–	–	–	–	–	–
Foreign securities	–	–	–	4,592	12	–
Others	–	–	–	–	–	–
Total	–	–	–	44,802	194	–

3. Money trust

Not applicable

4. Derivative transactions

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

Currency related

At the end of fiscal 2014

(Yen in millions)

Type	Contract amount	1 year or longer ones	Market price	Appraisal profit and loss
Over-the-counter transactions				
Forward foreign exchange contracts				
Short positions				
US dollar	59,455	–	(5,568)	(5,568)
Euro	28,159	–	1,543	1,543
Total			(4,024)	(4,024)

At the end of fiscal 2015

(Yen in millions)

Type	Contract amount	1 year or longer ones	Market price	Appraisal profit and loss
Over-the-counter transactions				
Forward foreign exchange contracts				
Short positions				
US dollar	60,484	–	4,148	4,148
Euro	20,366	–	1,132	1,132
Total			5,280	5,280

Notes:
1. Currency related derivative transactions other than the above are omitted as there is no applicable item.
2. Calculating a market price: Foreign exchange rates using forward exchange rate.

(ii) Derivative transactions to which hedge accounting is applied

Not applicable

CORPORATE DATA (as of March 31, 2016)

Established:	May 30, 1966
Capital:	1 billion yen
Total assets:	709.4 billion yen
Address:	Hulic Kobuna-cho Building, 8-1, Nihonbashi-kobuna-cho, Chuo-ku, Tokyo Japan 103-0024
Phone:	03-3664-6078
URL:	http://www.nihonjishin.co.jp/

Japan Earthquake Reinsurance