

# 2017 ANNUAL REPORT

INTRODUCTION TO EARTHQUAKE REINSURANCE IN JAPAN



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## MESSAGE FROM THE PRESIDENT



Chairman:  
Yoshihiko Murase

President:  
Makoto Sugimachi

Let me begin by expressing my sincere gratitude to all our stakeholders for their continued support.

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. In April 2016, successive earthquakes occurred in Kumamoto, inflicting enormous damage.

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. JER has always sought to make earthquake reinsurance payouts promptly and reliably against disasters such as the Great Hanshin-Awaji Earthquake, the Great East Japan Earthquake and the Kumamoto Earthquakes.

At the same time, JER has consistently paid close attention to managing and operating assets for future earthquake reinsurance payouts, focusing primarily on asset liquidity and safety.

In earthquake insurance, the number of insurance policies has been increasing with each year, and the number of insurance policies in force at the end of March 2017 reached a record high of 17.71 million. This rise reflected the growing public interest in preparing for earthquakes, which in turn was a result of various initiatives by the non-life insurance industry, which worked as one in many parts of the country to encourage understanding of earthquake insurance and the purchase of insurance policies.

In January 2017, the earthquake insurance system was revised mainly for the purpose of dividing the loss categories into a larger number of segments and revising premium rates.

In these circumstances, under the fourth medium-term business plan “Strengthening Arrangements for Earthquake Reinsurance Payouts,” which was launched in fiscal 2015, we have worked to develop an effective business continuity management (BCM) in anticipation of an inland earthquake in the Tokyo Metropolitan area and to solve management issues to that end to ensure our readiness for prompt and reliable earthquake reinsurance payouts in preparation for potential large-scale earthquakes.

We are also working to enhance our asset management capabilities and increase our capacity to deal with financial market fluctuations, as our asset management system, which invests primarily in bonds, faced a continuously challenging investment environment with low interest rates. At the same time, we are also advancing our integrated risk management.

Meanwhile, as management base-related measures, we are continuing to strengthen the IT governance system and corporate governance system, and we are seeking to develop and hire human resources to support the enhancement of corporate value, with the aim of creating a rewarding and vibrant workplace.

Recognizing our social mission, we will strive 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 its stakeholders.

We hope that we can continue to count on your support as we pursue these initiatives.

July 2017

Makoto Sugimachi  
President

Japan Earthquake Reinsurance Co., Ltd.

# JAPAN EARTHQUAKE REINSURANCE CO., LTD.

## PROFILE

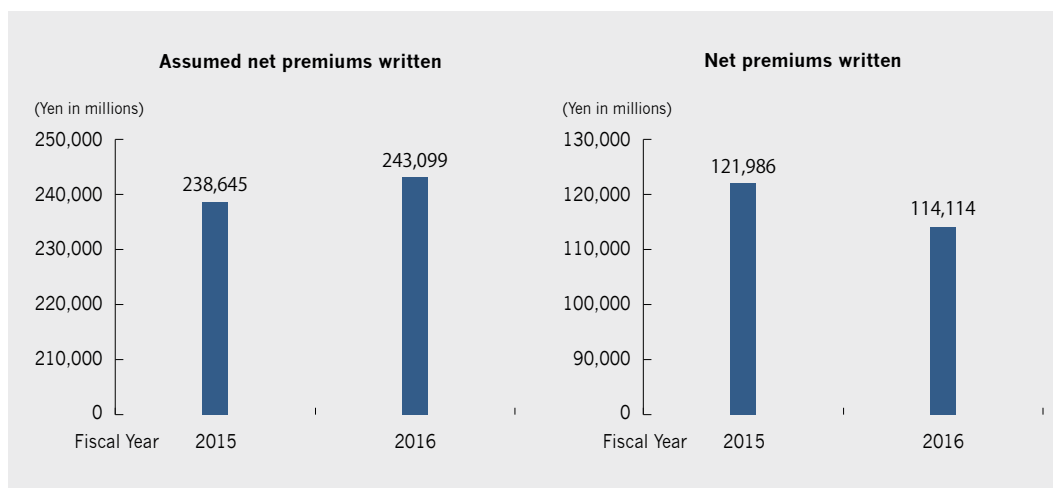
In accordance with the introduction of the Law concerning Earthquake Insurance (Law No. 73, May 18, 1966) and following the launch of sales of earthquake insurance on dwelling risks to be written in conjunction with dwelling and shop-owners comprehensive insurance policies, JER was established with share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

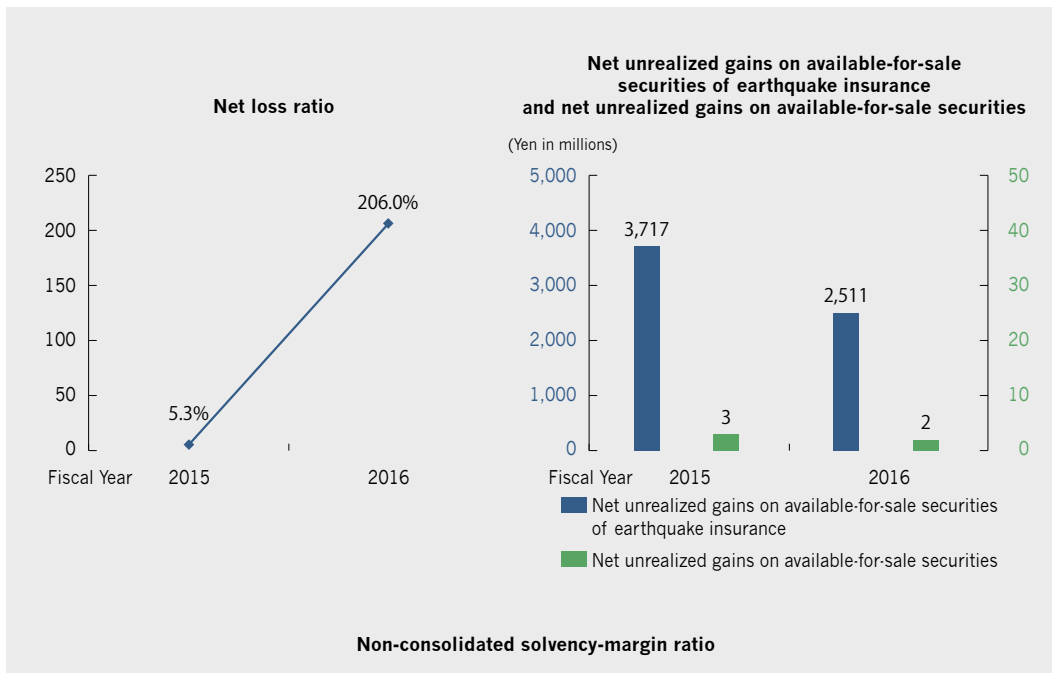
Earthquake insurance on dwelling risks depends on this reinsurance system (which is a safety net, as it were), in which the government, non-life insurance companies and JER participate to ensure that insurance claims can be paid to policyholders without fail.

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.

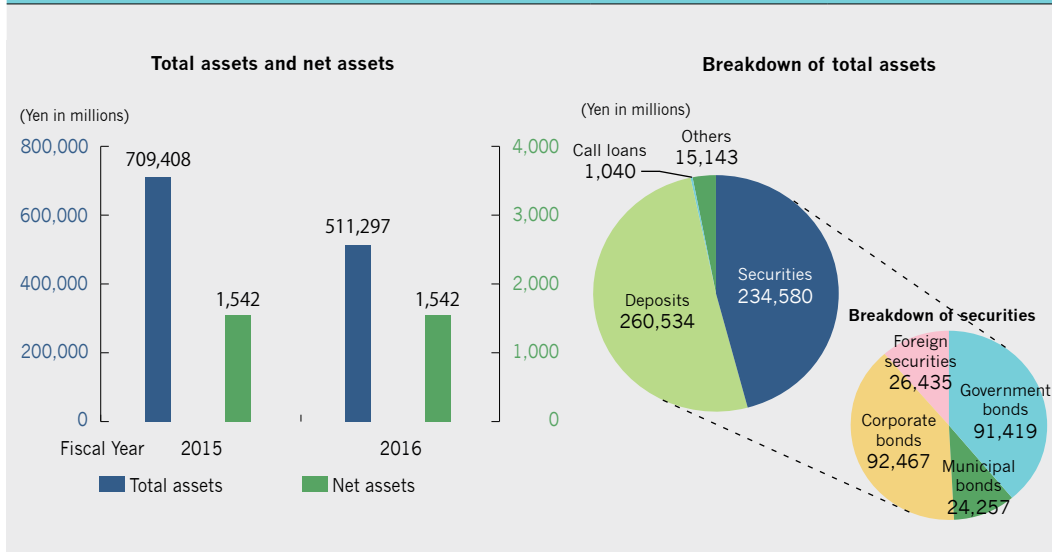
## FINANCIAL HIGHLIGHTS





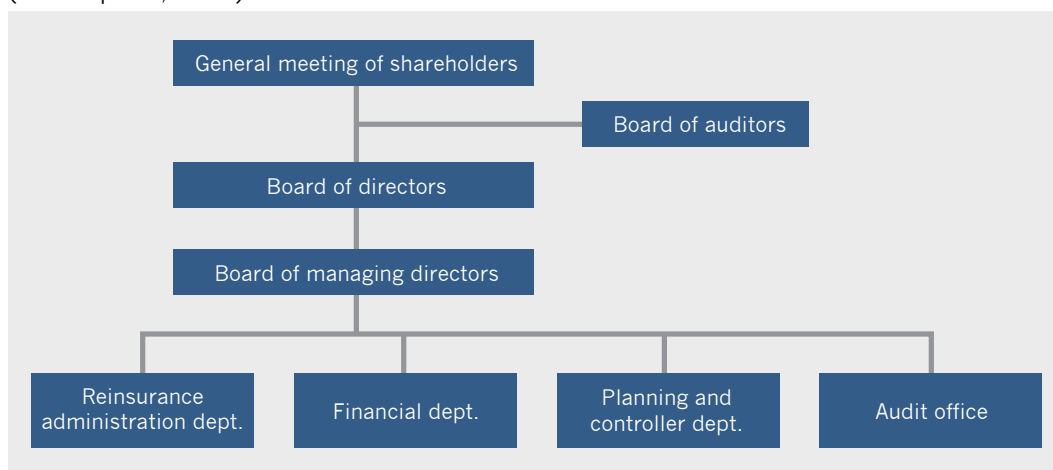
### Non-consolidated solvency-margin ratio

Items	FY2015	FY2016
(A) Total amount of non-consolidated solvency-margin	469.3 billion yen	282.6 billion yen
(B) Total amount of non-consolidated risk	239.3 billion yen	188.9 billion yen
<b>Non-consolidated solvency-margin ratio (A) / {1/2x(B)} x 100</b>	<b>392.1%</b>	<b>299.1%</b>



## ORGANIZATION

(As of April 1, 2017)



## SHAREHOLDERS

(As of March 31, 2017)

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, 2017)

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

Our Task Force Against Earthquake Disaster is working to make business continuity management (BCM) 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 important 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 2016, the Task Force Against Earthquake Disaster took steps to respond to the 2016 Kumamoto Earthquakes that struck in April 2016, establishing the “Project Team (PT) Against Earthquake Disaster” consisting of working-level employees to continuously discuss and examine issues for JER in earthquake disasters from a company-wide and cross-sectional perspective. We are working to increase the effectiveness of our readiness for earthquake disasters, raising the awareness of individual employees about BCM and disaster prevention by increasing opportunities for working-level employees to be involved in measures against earthquake disasters through their participation in the PT.

### DRILLS BY DEPARTMENT (DRILLS AT HOME AND USING A TEMPORARY OFFICE)

From November 2016 to February 2017, the Task Force Against Earthquake Disaster conducted drills by department, based on the assumption that employees were working at home or in a temporary office, as an initiative to strengthen BCM. The Planning and Controller Department reconfirmed the initial operation based on the assumption that an earthquake strikes outside working hours and the operation that responses need to be made for systems at a time when the persons in charge are absent. The Reinsurance Administration Department

then ran drills for reinsurance claim payments based on rough estimates. In addition, members of the Financial Department checked the operation to raise funds in the temporary office immediately after a major earthquake.

#### **DRILLS FOR ALL EMPLOYEES (DRILLS FOR PROCESSING LOSS ASSESSMENT EXPENSES)**

The number of claims for loss assessment expenses increases significantly when a major earthquake strikes, making it impossible for the department in charge to handle them.

To address this problem, the Task Force Against Earthquake Disaster conducted drills every year for checking and inputting the loss assessment expenses, with all JER employees participating, to secure processing personnel. In fiscal 2016, the employees showed the results of their routine drills by actually checking and inputting the loss assessment expenses in the claims for loss assessment of the 2016 Kumamoto Earthquakes. During normal conditions, the Task Force will work to secure personnel that can make 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.



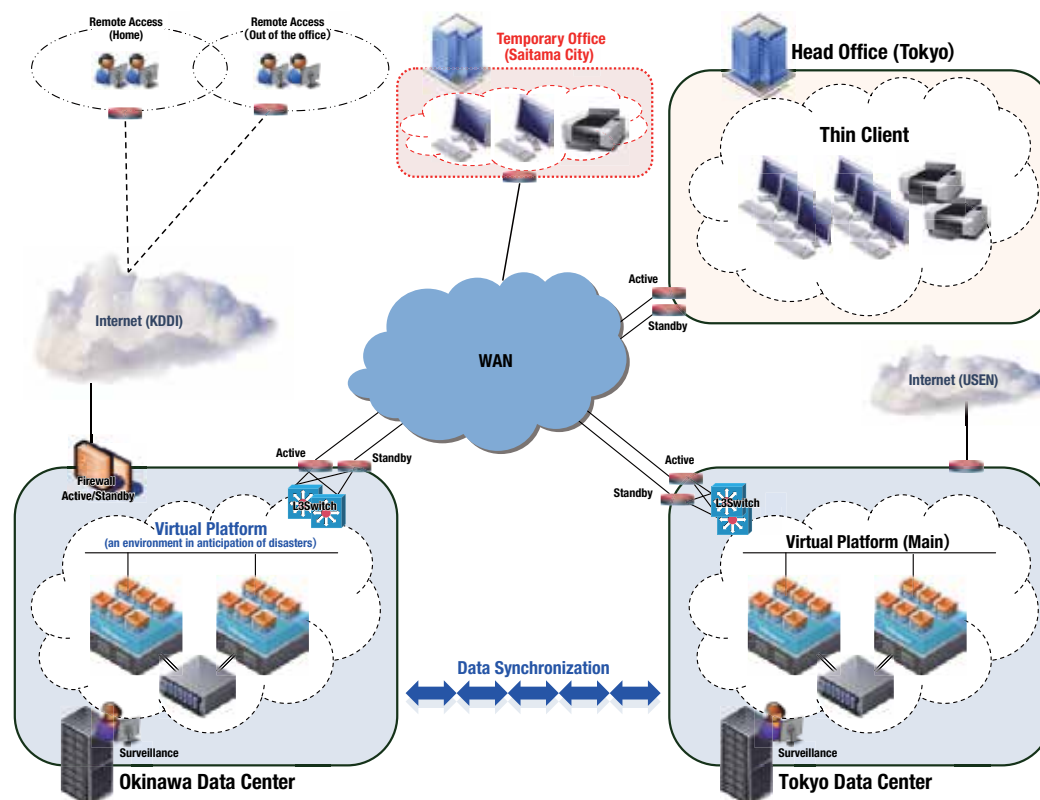


## SYSTEM INFRASTRUCTURE IN ANTICIPATION OF AN INLAND EARTHQUAKE IN THE TOKYO METROPOLITAN AREA

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.

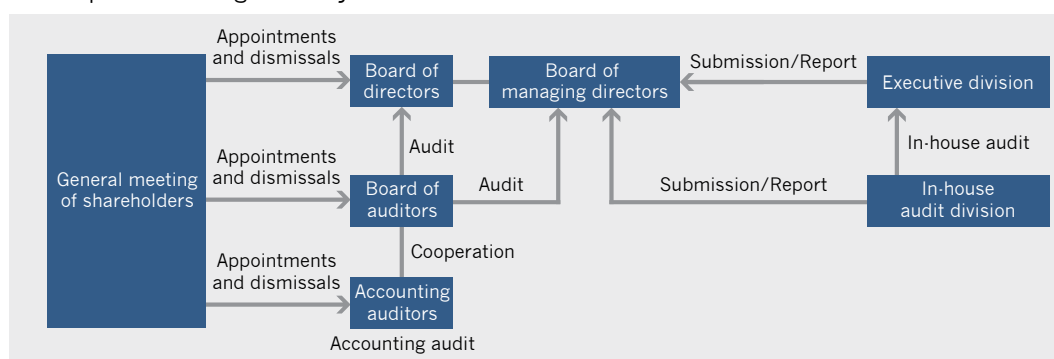
Moreover, we have made our terminals thin clients and concentrated data on the virtual platform to reduce the risk of data loss and information leakage. Combined with a remote access system whereby users outside the company can access the company's system via the Internet, we have created an environment 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.



## 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 Office work closely with each other 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.

The Audit Office conducts regular audits of the internal control conditions of all divisions as well as audits on priority themes based on the "In-house Audit Plan" for each fiscal year adopted by resolution of the Board of Directors, and the results of in-house audits are reported to the Board of Directors, etc.



## 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. Based on these rules, the planning and controller department, which is the integrated risk management department, manages risks in an integrated manner by monitoring the risk management situation. We have also established a company-wide Risk Management Committee as an advisory board for officers in charge of risk management to make proposals for various risk management issues.

## 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 possibility of having to dispose of all assets in the event of a major earthquake. We also strive to accurately assess cash flows, thereby managing funds appropriately.

## OPERATIONAL RISKS

Operational risks are classified into “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

## REVISION OF PREMIUMS RATES OF EARTHQUAKE INSURANCE ON JANUARY 1, 2017 AND DIVISION OF LOSS CATEGORIES INTO FOUR

Earthquake insurance has been revised as described below for policies the inception date of which is on or after January 1, 2017. Outline of the revision is as follows.

### 1. REVISION OF INSURANCE PREMIUMS

Insurance premiums have been raised 5.1% on national average in light of the renewal of the seismic source models to the 2014 version and the renewal of basic data in the Probabilistic Seismic Hazard Maps (PSHM) by the Headquarters for Earthquake Research Promotion of the government.

### 2. DIVISION OF LOSS CATEGORIES INTO FOUR

Based on discussions (it is desirable to better reflect the reality of losses in the loss categories while ensuring the promptness of loss assessment) at follow-up meetings of the Ministry of Finance's Earthquake Insurance System Project Team, the "half loss" in the loss categories has been divided into two, namely "large half loss" and "small half loss." As a result, the three categories of total loss, half loss and partial loss have been divided into four categories of total loss, large half loss, small half loss and partial loss.

## PARTICIPATION IN FORUM TO COMMEMORATE THE 50TH ANNIVERSARY OF THE EARTHQUAKE INSURANCE SYSTEM

On September 5, 2016, a forum to commemorate the 50th anniversary of the earthquake insurance system was held, sponsored by the General Insurance Association of Japan (GIAJ). It sought to use the 50th anniversary of the earthquake insurance system as an opportunity to look back on the history of earthquake insurance and seek the further take up and promotion of earthquake insurance.

A panel discussion by experts followed the keynote speeches by the Ministry of Finance and the Financial Services Agency. During the discussion, panelists noted that the role of earthquake insurance in Japan, a country highly susceptible to earthquakes, is very significant and that to further facilitate the take up of earthquake insurance, it is important for consumers to have a correct understanding of the need and mechanism of earthquake insurance. At the conclusion of the forum, the determination that "non-life insurance companies and agents will unite and make concerted efforts with the cooperation of the government to inform the earthquake risk and further facilitate the take up of earthquake insurance" was expressed.

JER also set up a special booth in the venue to introduce the reinsurance system and the role of JER, which support the earthquake insurance system, by putting up posters and distributing a booklet, among other activities.

## RESPONSE TO THE 2016 KUMAMOTO EARTHQUAKES

We offer our deepest sympathy to all those affected by the 2016 Kumamoto Earthquakes. The non-life insurance industry was united in taking initiatives to promptly, steadily and fairly make insurance payouts to support the reconstruction of the lives of policyholders affected by these earthquakes and sought to support the victims and timely provide information, making use of its experience in the Great East Japan Earthquake. As a result, 247,048 earthquake insurance claims of 377.2 billion yen had been paid as of March 31, 2017.

### NUMBER AND AMOUNT OF EARTHQUAKE INSURANCE CLAIMS PAID IN THE 2016 KUMAMOTO EARTHQUAKES

As of March 31, 2017: The figures below were gathered from both the member and non-member insurance companies of GIAJ.

	Number of inquiries (Note 1)	Number of settled cases (Note 2)	Number of claim payments	Total amount of claims paid (1,000 yen)
Fukuoka	24,113	23,440	17,188	10,449,428
Saga	3,913	3,827	2,909	1,873,692
Nagasaki	1,002	982	671	389,377
Kumamoto	228,128	228,045	211,478	353,320,597
Oita	16,973	16,748	13,631	10,469,010
Miyazaki	702	681	481	342,933
Kagoshima	465	463	262	140,261
Other	760	742	428	302,371
Total	276,056	274,928	247,048	377,287,669

Note 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 investigations. It also includes cases that were resolved when insurance companies received inquiries.

(Source: Partially extracted from the GIAJ website on May 9, 2017)

\* The number and amount of reinsurance claims paid in the 2016 Kumamoto Earthquakes posted in the Top 20 Earthquakes as to Reinsurance Claims Paid on page 26 are the number and amount of reinsurance claims paid by JER to non-life insurance companies as of March 31, 2017 and therefore are not the same as the number and amount above.

# 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.

(Table 1-1) <Policies the inception date of which is on or after January 1, 2017>

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)
	Large half loss	60% of amount insured (up to 60% of the current price of the insurable objects)
	Small half loss	30% of amount insured (up to 30% 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)

(Table 1-2) <Policies the inception date of which is on or before December 31, 2016>

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)

Note: If the degree of damage is judged to be less than a partial loss, insurance claims will not be paid.

### 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.

## AUTHORIZATION CRITERIA OF LOSSES

Major loss assessment standards by degree of loss are as follows.

(Table 2-1) <Policies the inception date of which is on or after January 1, 2017>

	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
Large half loss	From 40% to less than 50% of the current price of the residential building	From 50% to less than 70% of the total floor area of the residential building	From 60% to less than 80% of the current price of the personal property
Small half loss	From 20% to less than 40% of the current price of the residential building	From 20% to less than 50% of the total floor area of the residential building	From 30% to less than 60% 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 the damage is not as much as total, large half, small half or partial loss, although it was flooded above the floor level or above 45 cm from the ground level.	From 10% to less than 30% of the current price of the personal property

(Table 2-2) <Policies the inception date of which is on or before December 31, 2016>

	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 the damage is not as much as total, half or partial loss, although it was flooded above the floor level or above 45 cm from the ground level.	From 10% to less than 30% of the current price of the personal property

\* *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. 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.

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

The Headquarters for Earthquake Research Promotion\*\*\*, a government organization, published the Probabilistic Seismic Hazard Maps. The risk premium rate is calculated based on the latest revised damage projection method to cover all earthquakes 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 23 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.

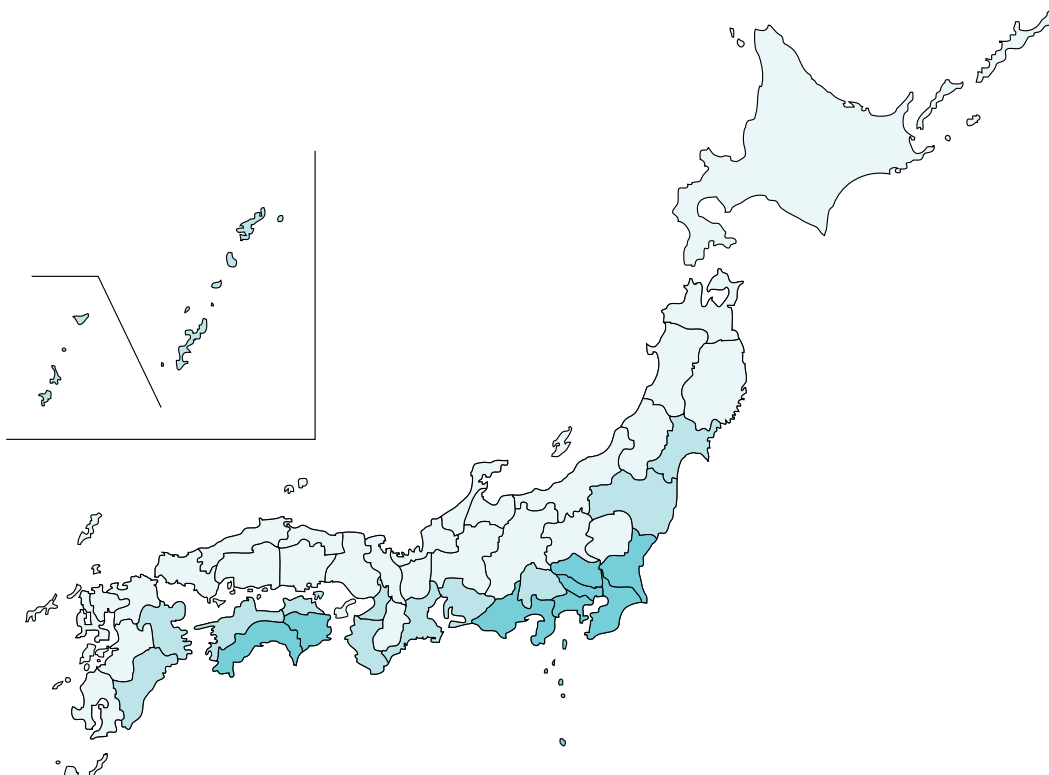
\*\*\* *The Headquarters for Earthquake Research Promotion*

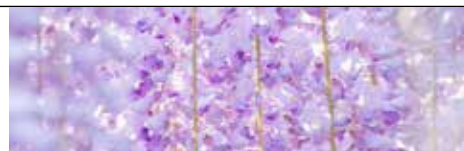
Following on the lessons learned from the Great Hanshin-Awaji Earthquake Disaster, the Special Measure Law on Earthquake Disaster Prevention was enacted to develop a system to facilitate research and study on earthquakes, and based on this Law, the Headquarters for Earthquake Research Promotion was founded 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
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	6,800	11,400
	Hokkai-do, Aomori-ken, Niigata-ken, Gifu-ken, Kyoto-fu, Hyogo-ken, Nara-ken	8,100	15,300
2	Fukushima-ken	7,400	14,900
	Miyagi-ken, Yamanashi-ken, Kagawa-ken, Oita-ken, Miyazaki-ken, Okinawa-ken	9,500	18,400
	Ehime-ken	12,000	23,800
	Osaka-fu	13,200	23,800
3	Aichi-ken, Mie-ken, Wakayama-ken	17,100	28,900
	Ibaraki-ken,	13,500	27,900
	Saitama-ken,	15,600	27,900
	Tokushima-ken, Kochi-ken	13,500	31,900
	Chiba-ken, Tokyo-to, Kanagawa-ken, Shizuoka-ken	22,500	36,300





## 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

- 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
- Confirming the premium rate applicable: Hyogo-ken, wooden  
→ 1.53 (premium per 1,000 yen insurance)
- Confirming the discount rate applicable: Building constructed in and after June 1981  
→ 10%

$$\begin{array}{l} \text{Earthquake insurance premium} \\ \text{on residential building} \end{array} = \begin{array}{l} \text{Earthquake} \\ \text{amount insured} \end{array} \times \begin{array}{l} \text{Earthquake insurance} \\ \text{premium rate} \end{array} \times \begin{array}{l} \text{Discount rate} \\ (100\% - 10\%) \end{array} = 13,800 \text{ (yen)} \\ \text{(1,000 yen)} \qquad \qquad \qquad \underbrace{1.53 \times 1.38} \end{array}$$

$$\begin{array}{l} \text{Earthquake insurance premium} \\ \text{on personal property} \end{array} = \begin{array}{l} \text{Earthquake} \\ \text{amount insured} \end{array} \times \begin{array}{l} \text{Earthquake insurance} \\ \text{premium rate} \end{array} \times \begin{array}{l} \text{Discount rate} \\ (100\% - 10\%) \end{array} = 6,900 \text{ (yen)} \\ \text{(1,000 yen)} \qquad \qquad \qquad \underbrace{1.53 \times 1.38} \end{array}$$

\* Proportion Insured

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

## INCOME TAX CREDIT SYSTEM FOR EARTHQUAKE INSURANCE

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

# REINSURANCE OF EARTHQUAKE INSURANCE

## MECHANISM OF REINSURANCE

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

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

## MECHANISM OF PAYMENT OF INSURANCE CLAIMS

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

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

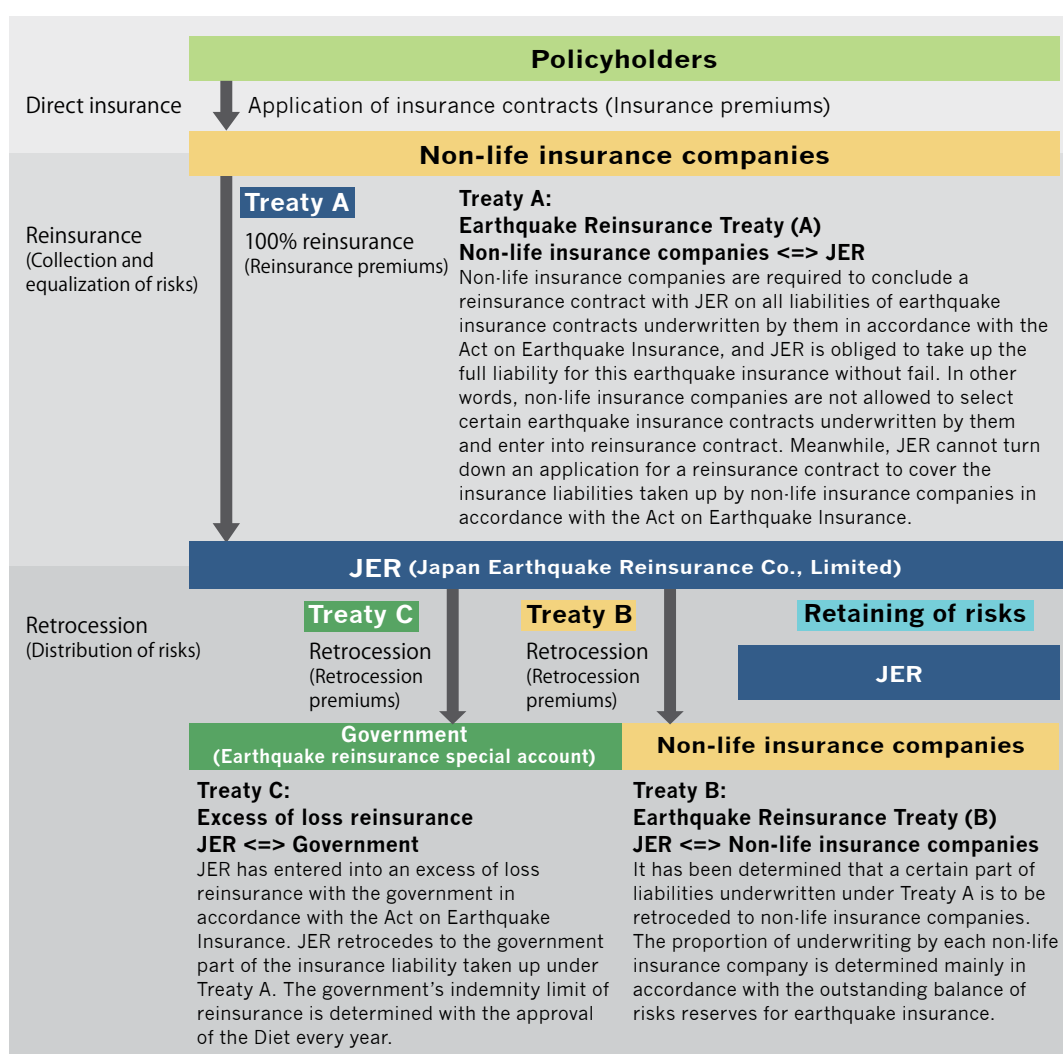
This means that the amount of reinsurance claim paid by JER is the same as the amount of the insurance claim paid to the policyholder by the non-life insurance company.

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

## FLOWCHART OF REINSURANCE

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

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



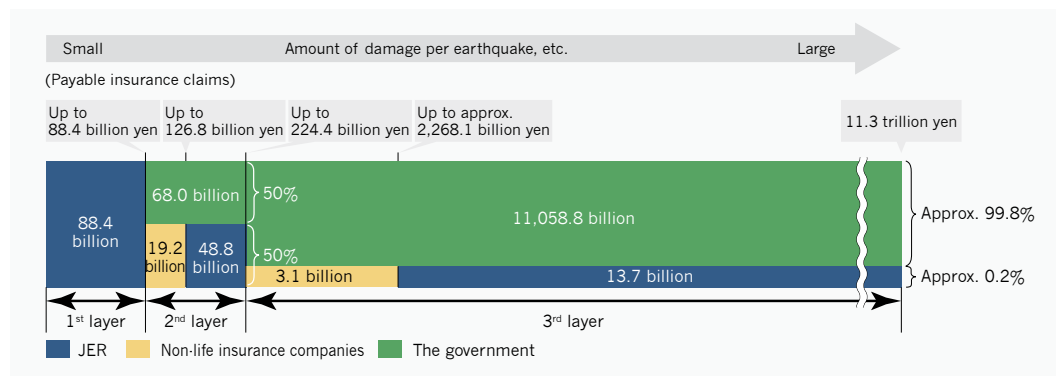




## INSURANCE LIABILITIES HELD BY JER, NON-LIFE INSURANCE COMPANIES AND THE GOVERNMENT

The limit of the total amount of insurance claims to be paid per earthquake, etc. is set in advance. This system is designed so that, even in the event of an earthquake as devastating as the Great Kanto Earthquake, insurance claims can be paid without problems. The current limit of total amount of insurance claims to be paid is set at 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, 2017)



### LIABILITY LIMIT

JER	150.9 billion yen
Non-life insurance companies	22.3 billion yen
The government	11,126.8 billion yen

JER pays insurance claims up to 88.4 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 88.4 billion yen, up to 224.4 billion yen (2nd layer). The government pays a majority of insurance claims (approximately 99.8%) for the portion exceeding 224.4 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-life 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			Total
	Portion up to 88.4 billion yen	Portion over 88.4 billion yen, and up to 224.4 billion yen	Portion over 224.4 billion yen, and up to 2,000 billion yen	
JER and Non-life insurance companies	88.4	68.0	About 2.7	About 159.1
The government	—	68.0	About 1,772.9	About 1,840.9
Total	88.4	136.0	1,775.6	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 2016

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	278.8 billion yen
Non-life insurance companies	46.8 billion yen
The government	1,345.7 billion yen
Total	1,671.4 billion yen

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

Note 2: Government reserves will be finalized when the settlement for fiscal 2016 is approved by the Diet.

# STATISTICS

## REINSURANCE CLAIMS PAID IN FISCAL 2016

Reinsurance claims paid in fiscal 2016 amounted to 388.5 billion yen, including earthquake reinsurance claims paid to cover the 2016 Kumamoto Earthquake. In terms of numbers, 216,954 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 2016 Kumamoto	April 14, 2016	7.3	200,029	375,299
2. Tottori-ken Chubu	October 21, 2016	6.6	5,538	4,596
3. The 2011 off the Pacific coast of Tohoku	March 11, 2011	9.0	5,898	4,244
4. Kumamoto-ken Kumamoto	April 18, 2016	5.8	598	1,014
5. Fukushima-ken-oki	November 22, 2016	7.4	1,116	653
Other earthquakes	—	—	3,775	2,719
Total	—	—	216,954	388,527

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

Earthquake (Region name)	No. of households (A) (1,000 households)	No. of 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	25,791	8,505	33.0	Nearly 0%–5%
Tokyo metropolitan	18,232	6,143	33.7	About 70%
Nankai trough	43,790	13,602	31.1	About 70%

Note 1: Number of households is prepared based on data of the Ministry of Internal Affairs and Communications (as of January 1, 2016).

2: JER prepared the number of policies, assuming that major prefectures were stricken, based on the preliminary figures as of the end of 2015 from the General Insurance Rating Organization of Japan.

3: The probability that an earthquake could occur within the next 30 years is based on the 2016 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 system was established.

(As of March 31, 2017)

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	807,152	1,274,855
2. The 2016 Kumamoto	April 14, 2016	7.3	200,029	375,299
3. Hyogo-ken Nanbu	January 17, 1995	7.3	65,427	78,346
4. Miyagi-ken-oki	April 7, 2011	7.2	31,005	32,392
5. Fukuoka-ken Seiho-oki	March 20, 2005	7.0	22,066	16,973
6. Geiyo	March 24, 2001	6.7	24,452	16,941
7. Niigata-ken Chuetsu	October 23, 2004	6.8	12,608	14,897
8. Niigata-ken Chuetsu-oki	July 16, 2007	6.8	7,869	8,249
9. Fukuoka-ken Seiho-oki	April 20, 2005	5.8	11,337	6,429
10. Tokachi-oki	September 26, 2003	8.0	10,553	5,990
11. Iwate-Miyagi Nairiku	June 14, 2008	7.2	8,276	5,545
12. Suruga-wan	August 11, 2009	6.5	9,518	5,170
13. Shizuoka-ken Tobu	March 15, 2011	6.4	5,354	4,671
14. Tottori-ken Chubu	October 21, 2016	6.6	5,538	4,596
15. Iwate-ken Engan Hokubu	July 24, 2008	6.8	7,756	3,973
16. Fukushima-ken Hamadori	April 11, 2011	7.0	2,373	3,679
17. Nagano-ken Chubu	June 30, 2011	5.4	2,982	3,332
18. Tottori-ken Seibu	October 6, 2000	7.3	4,079	2,869
19. Noto Hanto	March 25, 2007	6.9	3,307	2,733
20. Awajishima fukin	April 13, 2013	6.3	2,942	2,339

Note 1: After the 2011 Great East Japan Earthquake, in accordance with our reinsurance scheme at the time, the government paid 579,927 million yen and JER and non-life insurance companies paid 694,927 million yen.

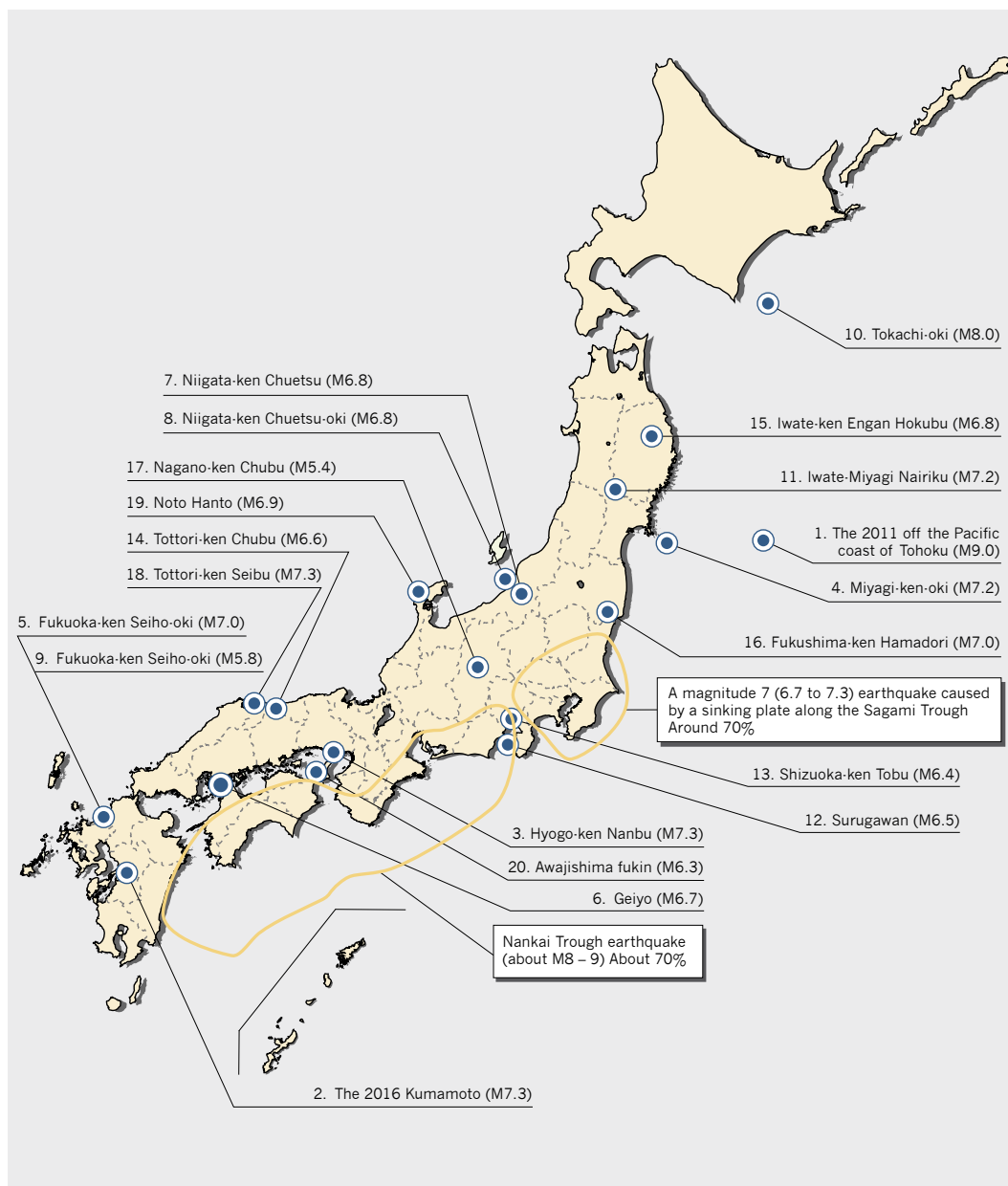
2: After the 2016 Kumamoto Earthquake, in accordance with our reinsurance scheme at the time, the government paid 129,999 million yen and JER and non-life insurance companies paid 245,299 million yen.

3: 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 JER and 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**

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

#### **Summary of Operations**

#### **Accounting Concepts**

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

# FINANCIAL REVIEW

## Business development, results, etc.

During fiscal 2016, the Japanese economy followed a moderate recovery path, with domestic demand remaining firm on improved employment conditions and growth in public investment, thanks to the monetary easing policy of the Bank of Japan, in addition to benefits reaped by the export sector from the recovery of overseas economies.

Earthquake insurance premiums remained almost flat from the previous fiscal year, reflecting growing social interest in earthquake insurance in the wake of the Kumamoto Earthquakes that struck in April 2016 and the effect of last-minute demand associated with the hike of insurance premiums as a result of the revision of earthquake insurance premiums in January 2017. These factors offset the negative impact of the reactionary fall after the last-minute increase in earthquake insurance policies associated with the revision of fire insurance in October 2015. Earthquake insurance payouts and loss assessment expenses increased significantly from the previous fiscal year, mainly because of the Kumamoto Earthquakes.

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 amid a situation that remained difficult for new investments due to the persistent ultra-low interest rate environment.

In fiscal 2016, we worked on a number of management measures as the second year of the fourth medium-term business plan "Strengthening Arrangements for Earthquake Reinsurance Payouts," as fiscal 2016 saw the milestone of the 50th anniversary of the founding of JER and the establishment of the earthquake insurance system.

We pushed ahead with initiatives such as the development of an effective BCM to prepare for an inland earthquake in the Tokyo metropolitan area, the most important issue of JER, the examination of the tenacity and merchantability of the earthquake insurance system, the information transmission and disclosure of JER and the earthquake insurance system to facilitate the understanding and take up of earthquake insurance, the strengthening of information and technology governance and the consideration of the complete renewal of system infrastructure and the development of a new human resources system and skills development.

## Summary of earthquake insurance results

### ① Net premiums written and net claims paid

In the fiscal year under review, although premiums written remained almost flat, net premiums written after deducting reinsurance premiums ceded declined to 114.1 billion yen (down 6.5% year on year), the result of an increase in reinsurance premiums ceded to the government following the revision of the reinsurance scheme of earthquake insurance in April and October 2016.

Meanwhile, net claims paid increased significantly to 220.9 billion yen (up 3,852.3% year on year), primarily due to the Kumamoto Earthquakes.

### ② Risk reserves and underwriting reserves

Risk reserves added totaled 52.1 billion yen (down 3.2% year on year), consisting of net premiums written of 51.8 billion yen, calculated by deducting assumed reinsurance commissions from net premiums written, and gains on investments of 0.2 billion yen.

Risk reserves at the end of the fiscal year under review came to 278.8 billion yen (down 40.0% year on year) as a result of the withdrawal from the reserves in the past year of net claims paid of 220.9 billion yen as stated above, loss assessment expenses of 14.1 billion yen, the provision for outstanding claims of 2.4 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 456.7 billion yen (down 27.2% 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 4.5 billion yen (down 6.1% 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 46.8 billion yen (down 40.0% year on year), the result of the withdrawal of reinsurance claims of 34.9 billion yen and advertising and publicity expenses of 0.9 billion yen.

## Outline of investments

The decline in domestic interest rates gained momentum in the wake of the introduction of the negative interest rate policy by the Bank of Japan. Subsequently, the outlook for a further deepening of negative interest rates faded, but the difficult investment environment remained, with the interest rate level of investment vehicles of JER staying in negative territory in their maturities.

Looking at exchange rates, the yen gradually strengthened against the US dollar along with speculation that the interest rate hike in the US would be delayed. After November, however, the yen weakened sharply against the US dollar, reflecting growing expectations of the policies of the new U.S. administration. While the yen initially appreciated against the euro, mainly due to political turbulence in Europe, the Japanese currency then gradually weakened, as the European economy began to recover.

In these circumstances, we invested in assets with top priority placed on safety and liquidity, followed by profitability. As a result, pretax profits from investments amounted to 0.2 billion yen in the business account and 0.1 billion yen in the entrusted reserves account. Consequently, investment assets totaled 496.1 billion yen at the end of the fiscal year under review.

## Profit and loss for the fiscal year under review

As a result of adding and subtracting other items to and from interest and dividend income and subtracting income taxes and residential taxes, net income for the fiscal year under review came to 1 million yen.

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

Division	Fiscal Year				
	2012	2013	2014	2015	2016
Net premiums written	92,996	92,248	108,994	121,986	114,114
Percentage change over the previous term	11.1%	(0.8%)	18.2%	11.9%	(6.5%)
Net claims paid	31,607	15,010	9,563	5,589	220,905
Percentage change over the previous term	(83.9%)	(52.5%)	(36.3%)	(41.6%)	3,852.3%
Ordinary income	110,370	104,703	119,822	129,107	289,485
Percentage change over the previous term	(61.5%)	(5.1%)	14.4%	7.7%	124.2%
Ordinary expenses	110,176	104,509	119,818	129,107	289,487
Percentage change over the previous term	(61.6%)	(5.1%)	14.6%	7.8%	124.2%
Ordinary profit (loss)	193	194	3	0	(1)
Percentage change over the previous term	117.5%	0.3%	(98.2%)	(98.4%)	(3,537.5%)
Net income (loss)	4	(82)	3	(0)	1
Percentage change over the previous term	-	(2,045.2%)	-	(115.6%)	-
Common stock	1,000	1,000	1,000	1,000	1,000
Sum of shares issued	2 mil. shares	2 mil. shares	2 mil. shares	2 mil. shares	2 mil. shares
Net assets	1,633	1,544	1,543	1,542	1,542
Total assets	536,808	577,305	640,137	709,408	511,297
Underwriting reserves	461,480	499,274	556,727	627,345	456,745
Percentage change over the previous term	7.1%	8.2%	11.5%	12.7%	(27.2%)
Of the balance, risk reserves	352,830	378,041	417,056	464,584	278,846
Percentage change over the previous term	6.4%	7.1%	10.3%	11.4%	(40.0%)
Loans	-	-	-	-	-
Percentage change over the previous term	-	-	-	-	-
Securities	476,979	525,161	391,034	401,751	234,580
Percentage change over the previous term	6.4%	10.1%	(25.5%)	2.7%	(41.6%)
Non-consolidated solvency-margin ratio	160.0%	344.9%	354.5%	392.1%	299.1%
Dividend propensity	-	-	-	-	-
No. of employees	27	26	29	28	26

**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 34.

## SUMMARY OF OPERATIONS

### 1 Indicators relating to insurance underwriting

#### 1. Net premiums written

Division	Fiscal Year		
	2014	2015	2016
Premiums written	222,014	245,353	247,441
Return premiums	4,341	6,708	4,342
Assumed net premiums written (A)	217,661	238,645	243,099
Reinsurance premiums ceded (B)	108,666	116,659	128,984
Net premiums written (A - B)	108,994	121,986	114,114

**Notes:**

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

Item: earthquake

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

Division	Fiscal Year		
	2014	2015	2016
Domestic contract	100%	100%	100%

#### 3. Net claims paid

Division	Fiscal Year		
	2014	2015	2016
Assumed net claims paid (A)	13,287	8,214	388,527
Reinsurance claims recovered (B)	3,723	2,625	167,622
Net claims paid (A - B)	9,563	5,589	220,905

**Notes:**

- Assumed net claims paid: Produced by deducting surrender value from ceded insurance claims paid
- 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	2014	2015	2016
Net loss ratio		10.1%	5.3%	206.0%
Underwriting expenses		44,026	46,606	47,409
Insurance related operating, general and administrative expenses		710	725	734
Commissions and brokerage fees		43,315	45,880	46,675
Net expense ratio		40.4%	38.2%	41.5%
Combined ratio		50.5%	43.5%	247.5%

##### 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	2014	2015	2016
Underwriting income		112,468	123,681	284,934
Underwriting expenses		111,757	122,956	284,200
Operating and general administrative expenses		710	725	734
Other income and expenses		-	-	-
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	2014	2015	2016
No. of reinsurers that ceded insurance contracts		10	10	11
Rate of top five reinsurers' ceded insurance premiums		90.4%	91.5%	89.8%

##### Note:

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

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

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.

## ② Investments

### 1. Investments policy

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

### 2. Total assets and investments assets

Division	Year		As of the end of		As of the end of	
	fiscal 2014	Percentage distribution (%)	fiscal 2015	Percentage distribution (%)	fiscal 2016	Percentage distribution (%)
Deposits	34,119	5.3	189,215	26.7	260,534	51.0
Call loans	84,898	13.3	4,668	0.7	1,040	0.2
Monetary receivables bought	113,991	17.8	94,596	13.3	-	-
Money trusts	-	-	-	-	-	-
Securities	391,034	61.1	401,751	56.6	234,580	45.9
Buildings	28	0.0	27	0.0	25	0.0
Total of investments assets	624,072	97.5	690,258	97.3	496,181	97.0
Total assets	640,137	100.0	709,408	100.0	511,297	100.0

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

Division	Fiscal Year	2014		2015		2016	
		Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
Deposits	28	0.10	34	0.06	7	0.00	
Call loans	23	0.03	8	0.02	0	0.00	
Monetary receivables bought	15	0.10	144	0.08	3	0.02	
Money trusts	-	-	-	-	-	-	
Securities	2,642	0.59	2,280	0.62	1,283	0.44	
Buildings	-	-	-	-	-	-	
Total	2,710	0.47	2,468	0.38	1,294	0.24	

#### Note:

**Investment assets yield (income yield):** indicator showing the result of investment assets from a point of income (interest and dividend income)

The numerator is composed of interest and dividend income from investment assets while the denominator is an acquisition cost based assets.

**Numerator** = Interest and dividend income (including the amount equivalent to interest and dividend income of profit (or loss) from monetary trust operation)

**Denominator** = Acquisition cost or depreciation based average balance

### 4. Asset management yield (realized yield)

Division	Fiscal Year	2014			2015			2016		
		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		28	29,824	0.10	34	60,181	0.06	7	233,671	0.00
Call loans		23	77,058	0.03	8	38,187	0.02	0	1,471	0.00
Monetary receivables bought		15	15,513	0.10	144	184,504	0.08	3	20,157	0.02
Money trusts		-	-	-	-	-	-	-	-	-
Securities		2,642	450,256	0.59	2,475	368,634	0.67	1,419	294,061	0.48
Public and corporate bonds		791	312,640	0.25	818	250,382	0.33	662	251,126	0.26
Stocks		-	-	-	-	-	-	-	-	-
Foreign securities		1,850	137,615	1.34	1,657	118,251	1.40	757	42,934	1.76
Other securities		-	-	-	-	-	-	-	-	-
Loans		-	-	-	-	-	-	-	-	-
Buildings		-	31	-	-	28	-	-	27	-
Derivatives		(6,447)	-	-	3,954	-	-	3,329	-	-
Others		6,153	-	-	(4,494)	-	-	(3,791)	-	-
Total		2,416	572,684	0.42	2,124	651,536	0.33	968	549,390	0.18

#### Notes:

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

**Numerator** = profit from asset management + investment income on savings premiums – expenses of assets management

**Denominator** = acquisition cost or writing-off cost based average balance

2. Profit and loss from 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	2014			2015			2016		
		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		28	29,824	0.10	34	60,181	0.06	7	233,671	0.00
Call loans		23	77,058	0.03	8	38,187	0.02	0	1,471	0.00
Monetary receivables bought		15	15,513	0.10	144	184,504	0.08	3	20,157	0.02
Money trusts		-	-	-	-	-	-	-	-	-
Securities		3,030	453,264	0.67	2,800	372,030	0.75	212	297,783	0.07
Public and corporate bonds		1,253	314,369	0.40	2,014	252,572	0.80	(227)	254,512	(0.09)
Stocks		-	-	-	-	-	-	-	-	-
Foreign securities		1,777	138,895	1.28	786	119,458	0.66	439	43,270	1.01
Other securities		-	-	-	-	-	-	-	-	-
Loans		-	-	-	-	-	-	-	-	-
Buildings		-	31	-	-	28	-	-	27	-
Derivatives		(6,447)	-	-	3,954	-	-	3,329	-	-
Others		6,153	-	-	(4,494)	-	-	(3,791)	-	-
Total		2,804	575,693	0.49	2,449	654,932	0.37	(239)	553,111	(0.04)

### 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 2014		As of the end of fiscal 2015		As of the end of fiscal 2016	
		Amount	Percentage distribution (%)	Amount	Percentage distribution (%)	Amount	Percentage distribution (%)
Foreign currency denominated							
Foreign public and corporate bonds		93,638	64.8	76,404	69.8	14,910	56.4
Yen denominated							
Foreign public and corporate bonds		50,763	35.2	33,118	30.2	11,525	43.6
Total		144,401	100.0	109,523	100.0	26,435	100.0
Yield on foreign loans & investments							
Investment assets yield (income yield)			1.34%		1.39%		1.45%
Assets management (realized yield)			1.34%		1.40%		1.76%
Market-price based overall yield (for reference)			1.28%		0.66%		1.01%

### Note:

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

**③ 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 2015	As of the end of fiscal 2016
Total amount of non-consolidated solvency-margin		469,361	282,607
Common stock, etc.		1,539	1,540
Price fluctuation reserves		6	2
Risk reserves		-	-
Catastrophe reserves		464,584	278,846
Reserves for ordinary bad debts		-	-
Unrealized gain/loss on available-for-sale securities / Deferred gain/loss on hedges		3,231	2,218
(A) 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		-	-
Total amount of non-consolidated risk $\sqrt{(R1 + R2)^2 + (R3 + R4)^2} + R5 + R6$		239,352	188,948
General underwriting risk (R1)		-	-
Underwriting risk in third-area insurance (R2)		-	-
(B) Anticipated rate of return risk (R3)		-	-
Investment risk (R4)		9,958	7,343
Management risk (R5)		4,693	3,704
Catastrophe risk (R6)		224,700	177,900
(C) Non-consolidated solvency-margin ratio $\frac{(A)}{[(B) \times 1 / 2]} \times 100$		392.1%	299.1%

**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

## ① Financial statements

### 1. Balance sheets

#### (ASSETS)

Item	(Yen in millions)	
	Fiscal Year	
	2015 (As of March 31, 2016)	2016 (As of March 31, 2017)
<b>Cash and deposits</b>	<b>189,215</b>	<b>260,534</b>
Deposits	189,215	260,534
<b>Call loans</b>	<b>4,668</b>	<b>1,040</b>
<b>Monetary receivables bought</b>	<b>94,596</b>	<b>-</b>
<b>Securities</b>	<b>401,751</b>	<b>234,580</b>
Government bonds	93,829	91,419
Municipal bonds	43,526	24,257
Corporate bonds	154,871	92,467
Foreign securities	109,523	26,435
<b>Tangible fixed assets</b>	<b>66</b>	<b>43</b>
Buildings	27	25
Other tangible fixed assets	39	17
<b>Intangible fixed assets</b>	<b>151</b>	<b>227</b>
Software	150	173
Software in progress	-	52
Other intangible fixed assets	1	1
<b>Other assets</b>	<b>18,957</b>	<b>14,870</b>
Reinsurance accounts receivable	12,357	14,464
Uncollected income	1,227	261
Deposits	46	46
Suspense payments	45	17
Derivatives	5,280	80
<b>Total assets</b>	<b>709,408</b>	<b>511,297</b>

#### (LIABILITIES)

Item	(Yen in millions)	
	Fiscal Year	
	2015 (As of March 31, 2016)	2016 (As of March 31, 2017)
<b>Underwriting funds</b>	<b>628,497</b>	<b>460,327</b>
Outstanding claims	1,152	3,581
Underwriting reserves	627,345	456,745
<b>Entrusted reserves</b>	<b>67,102</b>	<b>36,103</b>
<b>Other liabilities</b>	<b>8,364</b>	<b>10,630</b>
Reinsurance accounts payable	8,071	9,709
Income taxes payable	185	144
Deposits payable	3	3
Accrued amounts payable	104	328
Derivatives	-	444
<b>Reserve for retirement benefits</b>	<b>145</b>	<b>151</b>
Reserve for directors' retirement benefits	8	5
<b>Reserve for bonus payments</b>	<b>21</b>	<b>22</b>
<b>Reserves under the special law</b>	<b>6</b>	<b>2</b>
Reserve for price fluctuation	6	2
<b>Net unrealized gains on available-for-sale securities of earthquake insurance</b>	<b>3,717</b>	<b>2,511</b>
<b>Deferred tax liabilities</b>	<b>1</b>	<b>0</b>
<b>Total liabilities</b>	<b>707,865</b>	<b>509,755</b>

#### (NET ASSETS)

Item	(Yen in millions)	
	Fiscal Year	
	2015 (As of March 31, 2016)	2016 (As of March 31, 2017)
<b>Common stock</b>	<b>1,000</b>	<b>1,000</b>
<b>Retained earnings</b>	<b>544</b>	<b>546</b>
Legal reserve of retained earnings	1	1
Other legal reserve of retained earnings	543	545
Special reserves	17	17
Special price fluctuation reserves	39	39
Retained earnings carried forward	487	488
<b>Treasury Stock</b>	<b>(5)</b>	<b>(5)</b>
<b>Total shareholders' equity</b>	<b>1,539</b>	<b>1,540</b>
<b>Net unrealized gains on available-for-sale securities</b>	<b>3</b>	<b>2</b>
<b>Total valuation and translation adjustments</b>	<b>3</b>	<b>2</b>
<b>Total net assets</b>	<b>1,542</b>	<b>1,542</b>
<b>Total liabilities and net assets</b>	<b>709,408</b>	<b>511,297</b>

#### Notes for fiscal 2016

1. Matters relating to accounting policies are as follows.

- (1) Appraisal standards and method of securities and method of indication are as follows.
  - (i) Of available-for-sale securities, those to which the market price is applicable is appraised according to the market price at term end.
  - (ii) 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 or after April 1, 1998 and equipment attached to buildings and structures that were acquired on or after April 1, 2016 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) 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.
- (7) For employees' retirement and severance benefits, reserve for retirement benefits 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.
- (8) 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.
- (9) 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.
- (10) To prepare for a loss from price changes of shares and others, reserve for price fluctuation is appropriated according to Article 115, Insurance Business Law.
2. Matters relating to changes, etc. in accounting policies  
Associated with the amendment of the Corporation Tax Act, the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Accounting Standard Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 32, issued June 17, 2016) is applied to the fiscal year under review, and the depreciation method of equipment attached to buildings and structures that were acquired on or after April 1, 2016 has been changed from the declining balance method to the straight-line method. This change will not have an impact on financial statements for the fiscal year under review.
3. 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, 2017.

(Yen in millions)

	Balance sheet amount	Fair value	Difference
(i) Cash and deposits	260,534	260,534	-
(ii) Call loans	1,040	1,040	-
(iii) Securities			
Available-for-sale securities	234,580	234,580	-
Total assets	496,155	496,155	-
(iv) Derivatives* to which hedge accounting is not applied	(363)	(363)	-
Derivatives total	(363)	(363)	-

\* 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) 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.
- (iv) Derivatives  
The fair values of derivatives are determined by prices offered by correspondent financial institutions.

4. Taxes are included when preparing accounts for consumption tax and other items.
5. 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.
6. The accumulated depreciation of tangible fixed assets is 185 million yen.

7. See below for a breakdown of outstanding claims.

(Yen in millions)

Outstanding claims (before the deduction of outstanding reinsurance claims)	5,872
Outstanding reinsurance claims related to the above claims	2,290
Net outstanding claims	3,581

8. Total deferred tax assets amount to 351 million yen, while total deferred tax liabilities come to 0 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 258 million yen, a reserve for retirement benefits of 42 million yen, unpaid business taxes of 28 million yen and unpaid special local corporate tax of 11 million yen. Deferred tax liabilities resulted mainly from unrealized gains on securities of 0 million yen.

9. No event that could have a material impact on assets or profits or losses in or after the next fiscal year has arisen since the last day of the fiscal year under review.
10. Net assets per share are 775.67 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.
11. Additional information  
The "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, issued March 28, 2016) is applied from the fiscal year under review.
12. Each amount is rounded down to the nearest whole unit.

## 2. Statements of income

Item	(Yen in millions)	
	Fiscal Year	
	2015 (from April 1, 2015 to March 31, 2016)	2016 (from April 1, 2016 to March 31, 2017)
	Amount	Amount
<b>Ordinary income</b>	<b>129,107</b>	<b>289,485</b>
<b>Underwriting income</b>	<b>123,681</b>	<b>284,934</b>
Net premiums written	121,986	114,114
Investment income on savings premiums	1,198	220
Reversal of outstanding claims	497	-
Reversal of policy reserve	-	170,599
<b>Investment income</b>	<b>5,424</b>	<b>4,550</b>
Interest and dividend income	2,468	1,294
Gains on sales of securities	194	147
Gains on derivatives	3,954	3,329
Other investment income	4	0
Transfer of investment income on savings premiums	(1,198)	(220)
<b>Other ordinary income</b>	<b>1</b>	<b>0</b>
<b>Ordinary expenses</b>	<b>129,107</b>	<b>289,487</b>
<b>Underwriting expenses</b>	<b>122,956</b>	<b>284,200</b>
Net claims paid	5,589	220,905
Loss adjustment expenses	868	14,190
Commissions and brokerage fees	45,880	46,675
Provision of outstanding claims	-	2,429
Provision of underwriting reserves	70,617	-
<b>Investment expenses</b>	<b>4,498</b>	<b>3,803</b>
Loss on sales of securities	-	10
Foreign exchange losses	4,470	3,773
Other investment expenses	28	19
<b>Operating, general and administrative expenses</b>	<b>1,394</b>	<b>1,345</b>
<b>Other ordinary expenses</b>	<b>257</b>	<b>138</b>
Interest paid	257	138
<b>Ordinary profit (loss)</b>	<b>0</b>	<b>(1)</b>
<b>Extraordinary income</b>	<b>-</b>	<b>3</b>
Reversal of reserve for price fluctuation	-	3
<b>Extraordinary losses</b>	<b>0</b>	<b>-</b>
Losses on disposal fixed assets	0	-
Provision of price fluctuation reserves	0	-
<b>Net income (loss) before income taxes</b>	<b>(0)</b>	<b>1</b>
<b>Income taxes</b>	<b>0</b>	<b>0</b>
<b>Total income taxes</b>	<b>0</b>	<b>0</b>
<b>Net income (loss)</b>	<b>(0)</b>	<b>1</b>

## Notes for fiscal 2016

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

(Yen in millions)	
Premiums written:	243,099
Reinsurance premiums ceded:	128,984
Net premiums written:	114,114

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

(Yen in millions)	
Claims paid:	388,527
Reinsurance claims recovered:	167,622
Net claims paid:	220,905

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)	4,108
Provision of outstanding reinsurance claims related to the above claims	1,679
Net provision of outstanding claims	2,429

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

(Yen in millions)	
Deposits:	7
Call loans:	0
Monetary receivables bought:	3
Securities:	1,283
Total:	1,294

5. Paper profit/loss involved in the gains on derivatives is a loss of 363 million yen.

6. Net income per share is 0.57 yen.

The basis for this calculation is such that net income is 1 million yen, net income accrued from common stocks is 1 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 28.24%, and the corporate tax burden after applying the tax effect is 20.21%. The difference is explained by the following breakdown: valuation reserve 6,379.81%, the amount of the write-off carried from publicity expenses related to risk reserves (6,429.46%).

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



### 3. Statements of cash flow

Item	(Yen in millions)	
	Fiscal Year	2015 (from April 1, 2015 to March 31, 2016)
	Amount	Amount
<b>Cash flow from operating activities</b>		
Net income before income taxes	(0)	1
Depreciation	82	88
Increase (decrease) in outstanding claims	(497)	2,429
Increase (decrease) in underwriting reserves	70,617	(170,599)
Increase (decrease) in entrusted reserves	4,089	(30,999)
Increase (decrease) in reserve for retirement benefits	15	5
Increase (decrease) in reserve for directors' retirement benefits	(13)	(3)
Increase (decrease) in reserve for bonus payments	(0)	0
Increase (decrease) in reserve for price fluctuation	0	(3)
Interest and dividend income	(2,468)	(1,294)
Losses (gains) on investment in securities	(194)	(136)
Foreign exchange losses (gains)	5,723	3,865
Losses (gains) on tangible fixed assets	0	-
Decrease (increase) in other assets (other than investment and financial activities related)	377	(2,079)
Increase (decrease) in other liabilities (other than investment and financial activities related)	311	1,862
Others	(9,288)	5,603
Subtotal	68,753	(191,258)
Interest and dividends received	4,211	3,009
Income taxes paid	-	(0)
Net cash provided by operating activities	72,965	(188,249)
<b>Cash flow from investing activities</b>		
Net decrease (increase) in cash and deposits	-	(3,000)
Purchase of monetary receivables bought	(71,588)	-
Proceeds from sales and redemption of monetary receivables bought	19,997	71,597
Purchase of securities	(217,876)	(21,306)
Proceeds from sales and redemption of securities	200,414	182,791
Total investment assets activities	(69,052)	230,082
Total operating activities and investment assets activities	3,913	41,833
Acquisition of tangible fixed assets	(1)	(0)
Others	(40)	(140)
Net cash provided by investing activities	(69,094)	229,941
<b>Cash flow in financing activities</b>		
Effect of exchange rate changes on cash and cash equivalents	-	-
Net increase (decrease) in cash and cash equivalents	3,870	41,692
Cash and cash equivalents at the beginning of the year	202,011	205,882
Cash and cash equivalents at the end of the year	205,882	247,574

### Notes for fiscal 2016

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, 2016)	(As of March 31, 2017)
Cash and deposits	189,215	260,534
Call loans	4,668	1,040
Monetary receivables bought	94,596	-
Securities	401,751	234,580
Deposits of a depository period over three months	(11,000)	(14,000)
Monetary receivables bought other than cash equivalents	(71,597)	-
Securities other than cash equivalent	(401,751)	(234,580)
Cash and cash equivalents	205,882	247,574

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 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		Retained earnings carried forward						
		Special reserves	Special price fluctuation reserves								
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

Fiscal 2016 (from April 1, 2016 to March 31, 2017)

(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		Retained earnings carried forward						
		Special reserves	Special price fluctuation reserves								
Balance at the beginning of the period	1,000	1	17	39	487	544	(5)	1,539	3	3	1,542
Changes during the period											
Net income (loss)					1	1		1			1
Net changes other than shareholders' equity									(1)	(1)	(1)
Total changes					1	1		1	(1)	(1)	0
Balance at the end of the period	1,000	1	17	39	488	546	(5)	1,540	2	2	1,542

#### Notes for fiscal 2016

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 2015	Increase in fiscal 2016	Decrease in fiscal 2016	Balance as of the end of fiscal 2016
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		
	2014	2015	2016
Dividend per share	-	-	-
Net income (loss) per share	1.53 yen	(0.23 yen)	0.57 yen
Dividend propensity	-	-	-
Net assets per share	776.41 yen	775.61 yen	775.67 yen
Total assets per employee	22,073	24,462	19,665

#### Notes:

- Net income (loss) per share comes from net income (loss) / term average number of shares
- The number of treasury stock is deducted from producing information per share
- 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.

## ② Details of assets and liabilities

### 1. Deposits

(Yen in millions)				
Division	Year	As of the end of fiscal 2014	As of the end of fiscal 2015	As of the end of fiscal 2016
Deposits		34,119	189,215	260,534
Ordinary deposits		559	155,655	236,504
Time deposits		33,560	33,560	24,030

### 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 2014		As of the end of fiscal 2015		As of the end of fiscal 2016	
		Percentage distribution (%)		Percentage distribution (%)		Percentage distribution (%)	
Government bonds		181,570	46.4	93,829	23.4	91,419	39.0
Municipal bonds		2,891	0.7	43,526	10.8	24,257	10.3
Corporate bonds		62,170	15.9	154,871	38.5	92,467	39.4
Stocks		-	-	-	-	-	-
Foreign securities		144,401	36.9	109,523	27.3	26,435	11.3
Other securities		-	-	-	-	-	-
Total		391,034	100.0	401,751	100.0	234,580	100.0

### 4. Yield on securities held

(%)				
Division	Fiscal Year			
	2014	2015	2016	
Investment assets yield (income yield)				
Public & corporate bonds	0.25	0.25	0.26	
Stocks	-	-	-	
Foreign securities	1.34	1.39	1.45	
Other securities	-	-	-	
Total	0.59	0.62	0.44	
Assets management yield (realized yield)				
Public & corporate bonds	0.25	0.33	0.26	
Stocks	-	-	-	
Foreign securities	1.34	1.40	1.76	
Other securities	-	-	-	
Total	0.59	0.67	0.48	
Market-price based overall yield (for reference)				
Public & corporate bonds	0.40	0.80	(0.09)	
Stocks	-	-	-	
Foreign securities	1.28	0.66	1.01	
Other securities	-	-	-	
Total	0.67	0.75	0.07	

**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 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

### As of the end of fiscal 2016

(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	12,575	26,395	37,458	5,835	-	9,155	91,419
Municipal bonds	18,951	4,406	898	-	-	-	24,257
Corporate bonds	85,766	6,701	-	-	-	-	92,467
Stocks	-	-	-	-	-	-	-
Foreign securities	8,797	15,838	1,800	-	-	-	26,435
Other securities	-	-	-	-	-	-	-
Total	126,090	53,341	40,157	5,835	-	9,155	234,580

### 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 2014	As of the end of fiscal 2015	As of the end of fiscal 2016
Land		-	-	-
for underwriting		-	-	-
for investment		-	-	-
Buildings		28	27	25
for underwriting		28	27	25
for investment		-	-	-
Construction in progress		-	-	-
for underwriting		-	-	-
for investment		-	-	-
Total of property		28	27	25
for underwriting		28	27	25
for investment		-	-	-
Leased assets		-	-	-
Other tangible fixed assets		62	39	17
Total		91	66	43

### 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 2014	As of the end of fiscal 2015	As of the end of fiscal 2016
Outstanding claims		1,650	1,152	3,581
Underwriting reserves		556,727	627,345	456,745
Risk reserves		417,056	464,584	278,846
Unearned premium reserves		139,671	162,760	177,899
Total		558,377	628,497	460,327

### 16. Level of underwriting reserves

There is no target contact.

### 17. Detailed listing of liability reserves

#### 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

#### As of the end of fiscal 2016

(Yen in millions)

Division	Balance as of the end of fiscal 2015	Increase in fiscal 2016	Decrease in fiscal 2016	Balance as of the end of fiscal 2016
Reserve for ordinary bad debts	-	-	-	-
Reserve for individual bad debts	-	-	-	-
Reserve for specific foreign securities	-	-	-	-
Reserve for retirement benefits	145	23	17	151
Reserve for directors' retirement benefits	8	4	7	5
Reserve for bonus payments	21	22	21	22
Reserve for price fluctuation	6	-	3	2
Total	182	49	50	182

### 18. Detailed listing of shareholders' equity

Please refer to the statement of changes in shareholders' equity on page 40.

### ③ Income and loss details

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

(Yen in millions)				
Division	Fiscal Year	2014	2015	2016
Government bonds		–	181	2
Foreign securities		–	12	144
Total		–	194	147

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

(Yen in millions)				
Division	Fiscal Year	2014	2015	2016
Government bonds		–	–	–
Foreign securities		–	–	10
Total		–	–	10

#### 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	2014	2015	2016
Land		–	–	–
Buildings		–	–	–
Other tangible fixed assets		0	0	–
Total		0	0	–

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

(Yen in millions)				
Division	Fiscal Year	2014	2015	2016
Personnel expenses		417	404	3,311
Non personnel expenses		2,037	1,527	11,914
Taxes		293	331	310
Commissions and brokerage fees		43,315	45,880	46,675
Total		46,063	48,144	62,211

**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 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

#### As of the end of fiscal 2016

(Yen in millions)					
Type of asset	Acquisition cost	Depreciation in fiscal 2016	Aggregated depreciations	Balance as the end of fiscal 2016	Rate of aggregated depreciations %
Tangible fixed assets					
Buildings	85	1	59	25	69.8
for underwriting	85	1	59	25	69.8
for investment	–	–	–	–	–
Other tangible fixed assets	142	22	125	17	87.7
Total	228	23	185	43	81.0
Intangible fixed assets					
Software	382	64	208	173	54.6
Software in progress	52	–	–	52	–
Other intangible fixed assets	1	–	–	1	–
Total	436	64	208	227	47.8
Grand total	665	88	393	271	59.2

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

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

For matters related to the status of financial instruments and matters related to the fair values of financial instruments, please refer to Note 3 on the balance sheet (page 36~37).

##### 2. Securities

(i) Securities held for trading purposes

Not applicable

(ii) Securities to be held to maturity

Not applicable

(iii) Available-for-sale securities

##### As of 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

##### As of the end of fiscal 2016

(Yen in millions)

Division	Type	Acquisition cost	Book value	Difference
Securities whose carrying amount exceeds their cost	Public & corporate bonds	186,891	189,396	2,505
	Stocks	-	-	-
	Foreign securities	20,503	21,275	772
	Others	-	-	-
	Subtotal	207,394	210,672	3,278
Securities whose carrying amount does not exceed their cost	Public & corporate bonds	18,757	18,747	(9)
	Stocks	-	-	-
	Foreign securities	5,252	5,159	(92)
	Others	-	-	-
	Subtotal	24,009	23,907	(101)
Total		231,404	234,580	3,176

##### 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 2015			Fiscal 2016		
	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	-	3,504	2	-
Stocks	-	-	-	-	-	-
Foreign securities	4,592	12	-	42,893	144	10
Others	-	-	-	-	-	-
Total	44,802	194	-	46,397	147	10

##### 3. Money trust

Not applicable

##### 4. Derivative transactions

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

Currency related

##### As of the end of fiscal 2015

(Yen in millions)

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

##### As of the end of fiscal 2016

(Yen in millions)

Type	Contract amount		Market price	Appraisal profit and loss
		1 year or longer ones		
Over-the-counter transactions				
Forward foreign exchange contracts				
Short positions				
US dollar	14,388	-	(363)	(363)
Euro	-	-	-	-
Total			(363)	(363)

##### 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, 2017)

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Established:	May 30, 1966
Capital:	1 billion yen
Total assets:	511.2 billion yen
Address:	Hulic Kobuna-cho Building, 8-1, Nihonbashi-kobuna-cho, Chuo-ku, Tokyo Japan 103-0024
Phone:	03-3664-6078
URL:	<a href="http://www.nihonjishin.co.jp/">http://www.nihonjishin.co.jp/</a>

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**Japan Earthquake Reinsurance**