

2018 Annual Report

Introduction to Earthquake Reinsurance in Japan



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MESSAGE FROM THE PRESIDENT



Chairman:
Yoshihiko Murase

President:
Makoto Sugimachi

I would like to begin this message by expressing my sincere gratitude to all our stakeholders for their continued support.

Before moving on, I would also like to offer my deepest condolences to the bereaved families of those who died in the recent earthquake, the epicenter of which was in the northern part of Osaka Prefecture. My thoughts and prayers are with the victims. I would also like to express my heartfelt sympathy to people who are suffering as a result of the earthquake. I pray for the earliest possible reconstruction of their livelihoods.

Japan Earthquake Reinsurance Co., Ltd. (JER) will work to deliver earthquake insurance claims promptly and reliably to policyholders affected by this recent earthquake to help them reconstruct their livelihoods.

Japan is one of the most active seismic and volcanic areas in the world. Disasters caused by earthquakes, volcanic eruptions and tsunamis have occurred in the country over and over again. Earthquake insurance was established to stabilize the livelihoods of those affected by such natural disasters. In the earthquake reinsurance scheme, three players – the Japanese government, private non-life insurance companies and JER – work together across sectors to ensure that earthquake insurance claims are paid promptly and reliably.

Since the establishment of the earthquake insurance system in 1966, JER has adopted contributing to the maintenance and development of an affluent and safe society and becoming a company that is widely trusted by the public through the sound management of the household earthquake insurance system as its management philosophy as the only company in Japan that is permitted to exclusively handle reinsurance for earthquake insurance covering dwelling risks. JER has been working to make this philosophy a reality.

JER has always sought to make earthquake reinsurance payouts promptly and reliably in the wake of disasters such as the Great Hanshin-Awaji Earthquake, the Great East Japan Earthquake and the Kumamoto Earthquakes as its most important mission. 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.

The fifth medium-term business plan for JER commenced in fiscal 2018. Under this medium-term business plan, we will work on building strong, sustainable earthquake insurance systems and making business continuity management (BCM) more effective in anticipation of an inland earthquake in the Tokyo Metropolitan area. In asset management, we will approach contributions to corporate earnings through our management capacity buildups while guaranteeing asset liquidity and safety. As business foundation items underpinning these initiatives, we will seek to train experts and promote working conditions that match diverse ways of working. Furthermore, we will build a governance system that is compatible with environmental changes and make our business administration more appropriate and effective.

Recognizing our social mission, we will continue making efforts to understand our roles and responsibilities and execute our duties reliably in order to contribute to the development of the earthquake insurance system. We aim 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 2018

Makoto Sugimachi
President

Japan Earthquake Reinsurance Co., Ltd.

JAPAN EARTHQUAKE REINSURANCE CO., LTD.

PROFILE

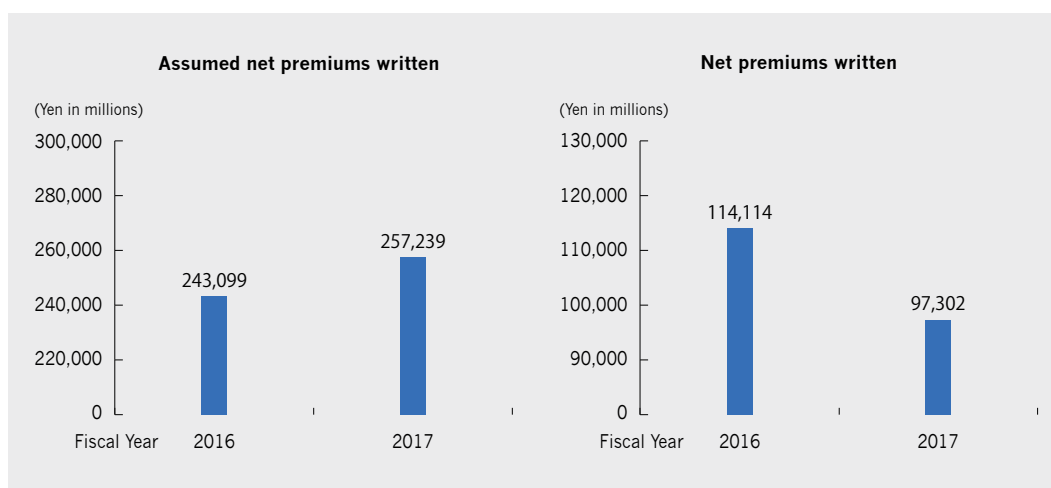
In accordance with the introduction of the Law concerning Earthquake Insurance (Law No. 73, May 18, 1966) and following the launch of sales of earthquake insurance on dwelling risks to be written in conjunction with dwelling and shop-owners comprehensive insurance policies, JER was established with share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

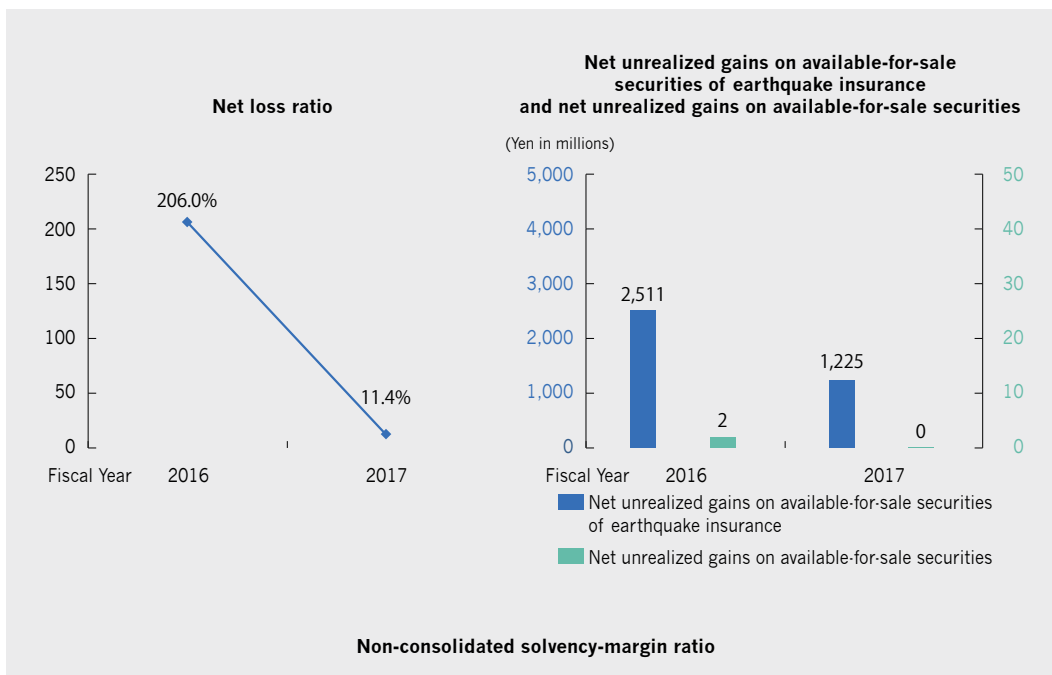
Earthquake insurance on dwelling risks depends on this reinsurance system (which is a safety net, as it were), in which the government, non-life insurance companies and JER participate to ensure that insurance claims can be paid to policyholders without fail.

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.

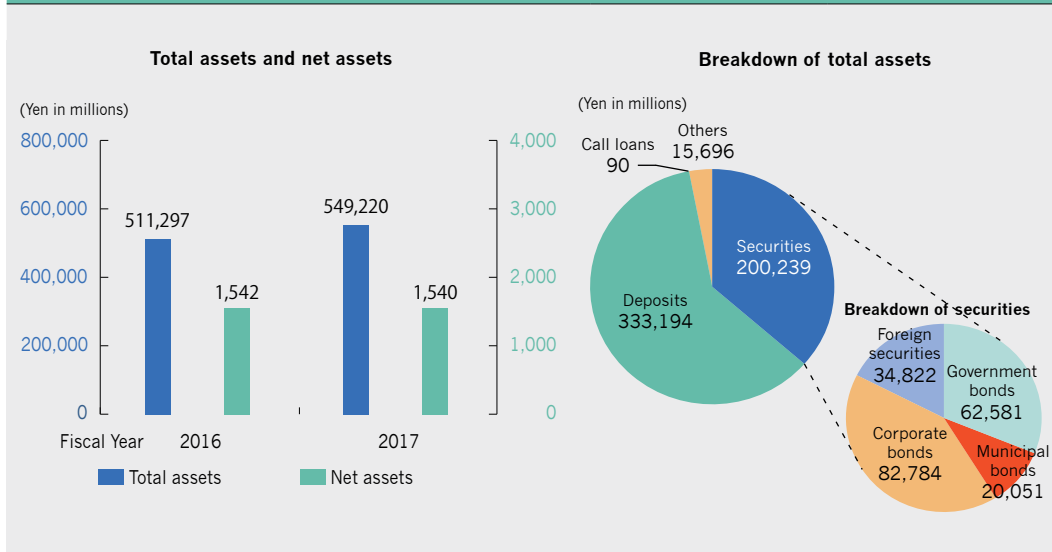
FINANCIAL HIGHLIGHTS





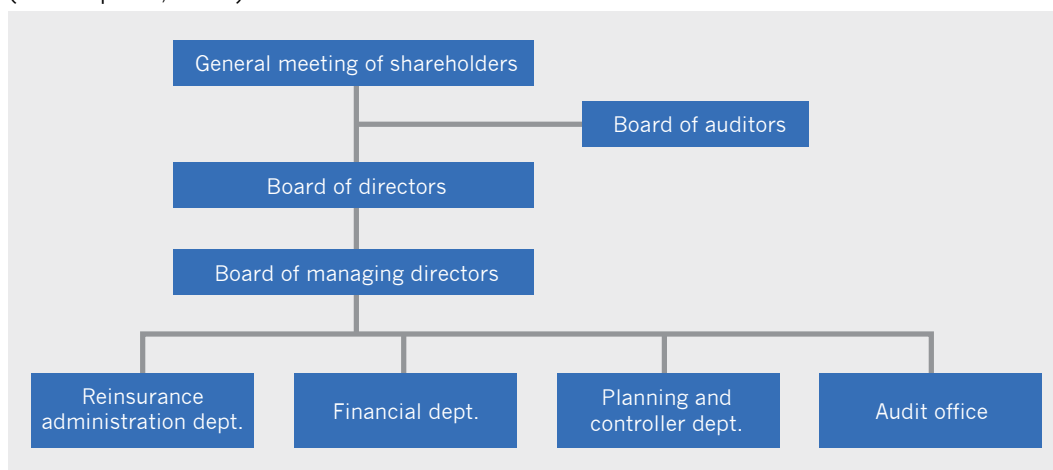
Non-consolidated solvency-margin ratio

Items	FY2016	FY2017
(A) Total amount of non-consolidated solvency-margin	282.6 billion yen	306.6 billion yen
(B) Total amount of non-consolidated risk	188.9 billion yen	161.5 billion yen
Non-consolidated solvency-margin ratio [(A) / {(B)x1/2}] x 100	299.1%	379.6%



ORGANIZATION

(As of April 1, 2018)



SHAREHOLDERS

(As of March 31, 2018)

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
AIG General Insurance Company, 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 April 1, 2018)

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 2017, we conducted company-wide drills with the Project Team (PT) Against Earthquake Disaster, which was established in the previous fiscal year and comprises working-level employees, as their main executor, in addition to our regular drills. We are working to make our measures against earthquake disasters more effective by requiring all JER employees to take part in these exercises planned by working-level employees that more accurately reflect the viewpoints of the existing in-house conditions and business circumstances.

DRILLS SPONSORED BY THE PT AGAINST EARTHQUAKE DISASTER (SIMULATED OVERNIGHT DRILLS AGAINST POTENTIAL RISKS)

The PT Against Earthquake Disaster conducted drills aimed at enabling employees remaining in JER offices to take appropriate actions in the absence of officials in charge of BCM, assuming that an earthquake has occurred and forced them to stay overnight in the offices. Through the drills, all JER employees had first-hand experience of things like cooking and eating emergency provisions and generating power internally using dynamos. They reconfirmed the actions that are necessary for staying overnight in the offices, including the confirmation of storage sites and handling methods for the provisions and dynamos.

DRILLS BY DEPARTMENT (DRILLS AT HOME AND DRILLS USING TEMPORARY OFFICES)

To bolster BCM, the Task Force Against Earthquake Disaster conducted drills by department from September 2017 to March 2018, assuming that employees work at home or in temporary offices. Members of the Reinsurance Administration Department practiced reinsurance claim payments at home based on rough estimates. Members of the Financial Department checked temporary office operations for raising funds immediately after a major earthquake. Furthermore, in March 2018, members of the System Department performed operations for switching systems used in the Tokyo metropolitan area in the event of an earthquake to a data center in Okinawa. They confirmed the switching operations and identified system problems under operating conditions in Okinawa by actually performing these operations under the assumed condition of the disaster caused by the quake.

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 secure processing personnel, the Task Force Against Earthquake Disaster is asking all JER employees to check and input loss assessment expenses every year. In fiscal 2017, the Task Force sought to raise the collective capacity of all JER employees to process loss assessment expenses by changing the details of the drills and processing volumes based on their individual experiences in operations for processing loss assessment expenses.

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.

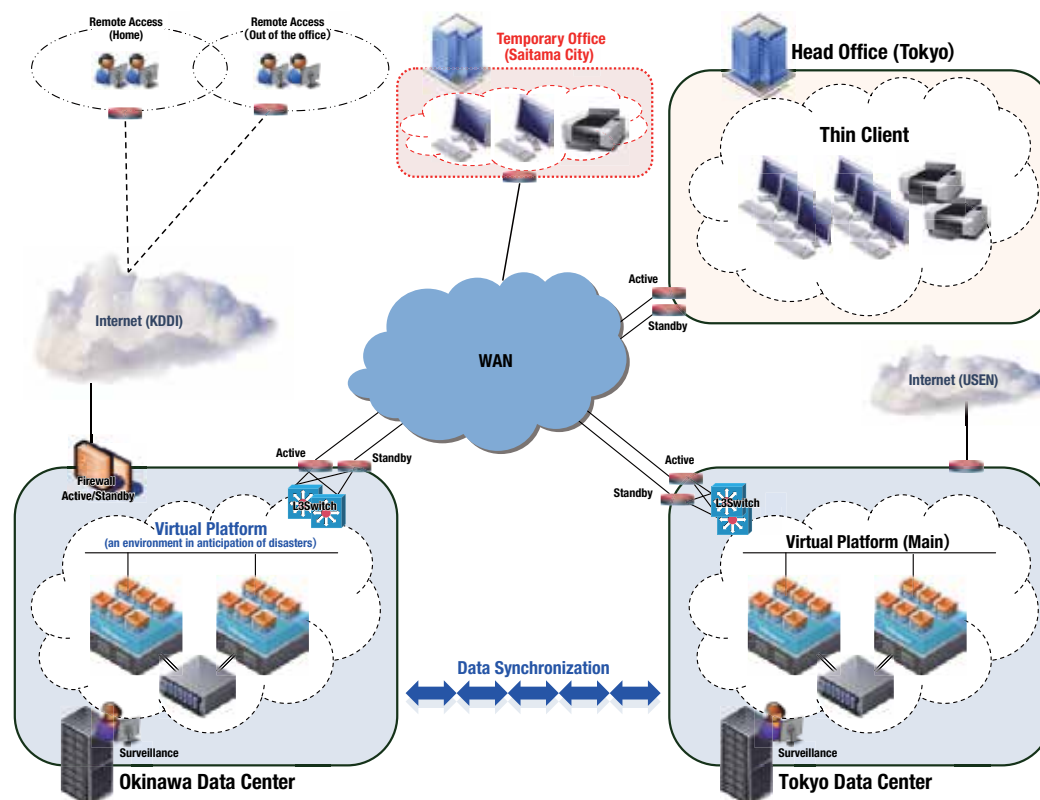


SYSTEM INFRASTRUCTURE IN ANTICIPATION OF AN INLAND EARTHQUAKE IN THE TOKYO METROPOLITAN AREA

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.

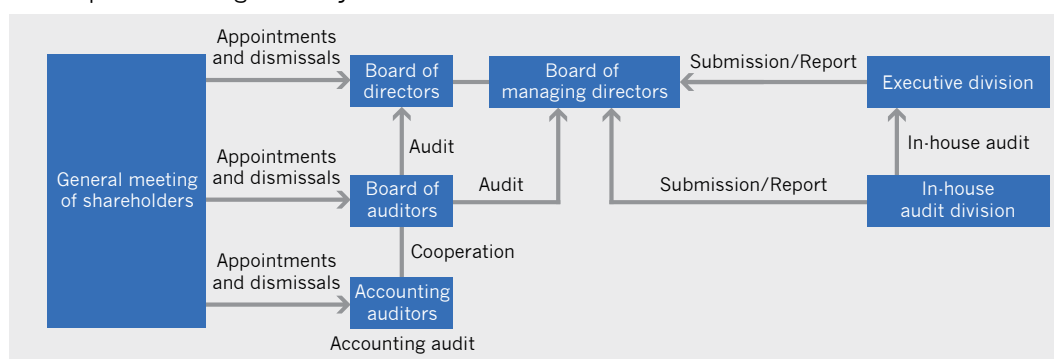
Moreover, we have made our terminals thin clients and concentrated data on the virtual platform to reduce the risk of data loss and information leakage. Combined with a remote access system whereby users outside the company can access the company's system via the Internet, we have created an environment 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 made arrangements for proper risk management execution to ensure the soundness and safety of our management. The organizational framework and important risk management issues are stipulated in our Integrated Risk Management Rules. Specific ways of managing various risks – namely, asset management risks, liquidity risks, and operational risks – are prescribed in our management rules for the respective types of risks and our annual risk management plans. 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. In addition, we have established the cross-sectional Risk Management Committee as an advisory board that reports to our director in charge of risk management. The Committee is making a range of proposals for issues related to risk management.

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.”

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

EMPLOYEE DISPATCHES TO UNIVERSITY LECTURES

JER is promoting understanding of the earthquake insurance system by dispatching its employees to universities as lecturers. In fiscal 2017, JER sent its employees to the Nihon University College of Risk Management in June 2017 and the Tohoku University Faculty of Economics in September 2017. Using diagrams, the employees gave explanations covering the outline of the earthquake insurance system, how reinsurance works, and the role played by earthquake insurance in the Great East Japan Earthquake and the Kumamoto Earthquakes to students taking courses on nonlife insurance at the two universities.

JER REPRESENTATIVES GIVE A LECTURE TO A GROUP FROM AAUI AND MAIPARK VISITING JAPAN FOR TRAINING

JER representatives gave a presentation on the Japanese earthquake insurance system to a group from the General Insurance Association of Indonesia (Asosiasi Asuransi Umum Indonesia, AAUI) and MAIPARK, a specialist earthquake reinsurance company in Indonesia, which visited Japan for training in November 2017. On this occasion, the JER representatives explained subjects including earthquake risks and the outline of the household earthquake insurance system in Japan. Like Japan, Indonesia is one of the most active areas on earth in terms of seismic activity. For this reason, people in Indonesia have a strong interest in the earthquake insurance system that is peculiar to Japan. The visitors from Indonesia asked the lecturers numerous questions, including how the premium rates for earthquake insurance are structured and the roles assigned to the reinsurance provided by the Japanese government.

MAJOR EARTHQUAKES IN THE PAST YEAR

Earthquakes that registered a maximum intensity of five or above on the Japanese seismic scale in the period from July 2017 to June 2018 are shown in the following Table.

Date of occurrence	Name	Magnitude (M)	Maximum seismic intensity
July 11, 2017	Earthquake whose epicenter was in the Kagoshima Bay	5.3	Strong 5: Kagoshima City
September 8, 2017	Earthquake whose epicenter was in the southern inland part of Akita Prefecture	5.2	Strong 5: Daisen City
April 9, 2018	Earthquake whose epicenter was in the western part of Shimane Prefecture	6.1	Strong 5: Ota City
May 25, 2018	Earthquake whose epicenter was in the northern part of Nagano Prefecture	5.2	Strong 5: Sakae Village, Nagano Prefecture
June 18, 2018	Earthquake whose epicenter was in the northern part of Osaka Prefecture	6.1	Weak 6: Kita-ku, Osaka City, Takatsuki City, Hirakata City, Ibaraki City and Minoh City

(Prepared by JER based on the results of a search of a seismic intensity database published on the official website of the Meteorological Agency)

MATTERS RELATING TO THE EARTHQUAKE WHOSE EPICENTER WAS IN THE NORTHERN PART OF OSAKA PREFECTURE

JER would like to express its heartfelt sympathy to people who suffered damage in the earthquake whose epicenter was in the northern part of Osaka Prefecture.

JER is working as one body with the nonlife insurance industry and the Japanese government to deliver insurance payouts promptly and reliably to policyholders affected by this earthquake so that they can rebuild their livelihoods.

Outline of the earthquake

Date and time of occurrence: June 18, 2018 at 7:58 a.m.

Magnitude: 6.1 (provisional figure)

Epicenter: Northern part of Osaka Prefecture

Seismic intensity registered in the respective areas (strong 5 or greater):

Weak 6: Osaka Prefecture: Kita-ku, Osaka City, Takatsuki City, Hirakata City, Ibaraki City and Minoh City

Strong 5: Osaka Prefecture: Miyakojima-ku, Osaka City, Higashi-Yodogawa-ku, Osaka City, Asahi-ku, Osaka City, Yodogawa-ku, Osaka City, Toyonaka City, Suita City, Neyagawa City, Settsu City, Katano City and Shimamoto Town

Kyoto Prefecture: Nakagyo-ku, Kyoto City, Fushimi-ku, Kyoto City, Nishikyo-ku, Kyoto City, Kameoka City, Nagaokakyo City, Yawata City, Oyamazaki Town and Kumiyama Town

(Prepared by JER based on a document released by the Cabinet Office titled "Matters Relating to the State of Damage, Etc. in Connection with the Earthquake Whose Epicenter was in the Northern Part of Osaka Prefecture")

State of nonlife insurance industry responses

The General Insurance Association of Japan (GIAJ) has established a countermeasures headquarters in Osaka City, Osaka Prefecture, to respond to matters related to the earthquake with comprehensive arrangements.

[State of earthquake insurance responses in the period from the occurrence of the earthquake to the present: their state as of June 30, 2018]

June 18, 2018	The GIAJ chairman's comment: To people affected by the earthquake whose epicenter was in the northern part of Osaka Prefecture
June 18, 2018	Matters relating to nonlife insurance industry responses to the earthquake whose epicenter was in the northern part of Osaka Prefecture
June 19, 2018	Matters relating to special measures in connection with the earthquake in 2018 whose epicenter was in the northern part of Osaka Prefecture
June 29, 2018	Matters relating to the number of earthquake insurance inquiries in connection with the earthquake in 2018 whose epicenter was in the northern part of Osaka Prefecture 54,212 inquiries as of Monday, June 25, 2018

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.

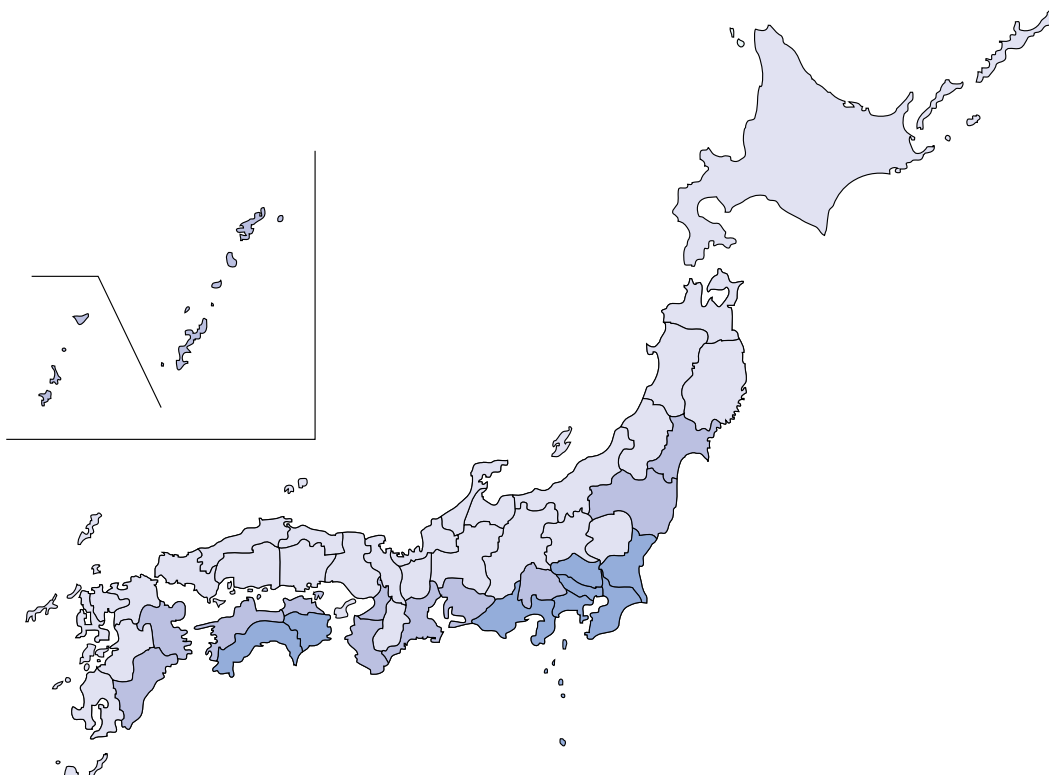
*** *The Headquarters for Earthquake Research Promotion*

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%

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

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

* 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.

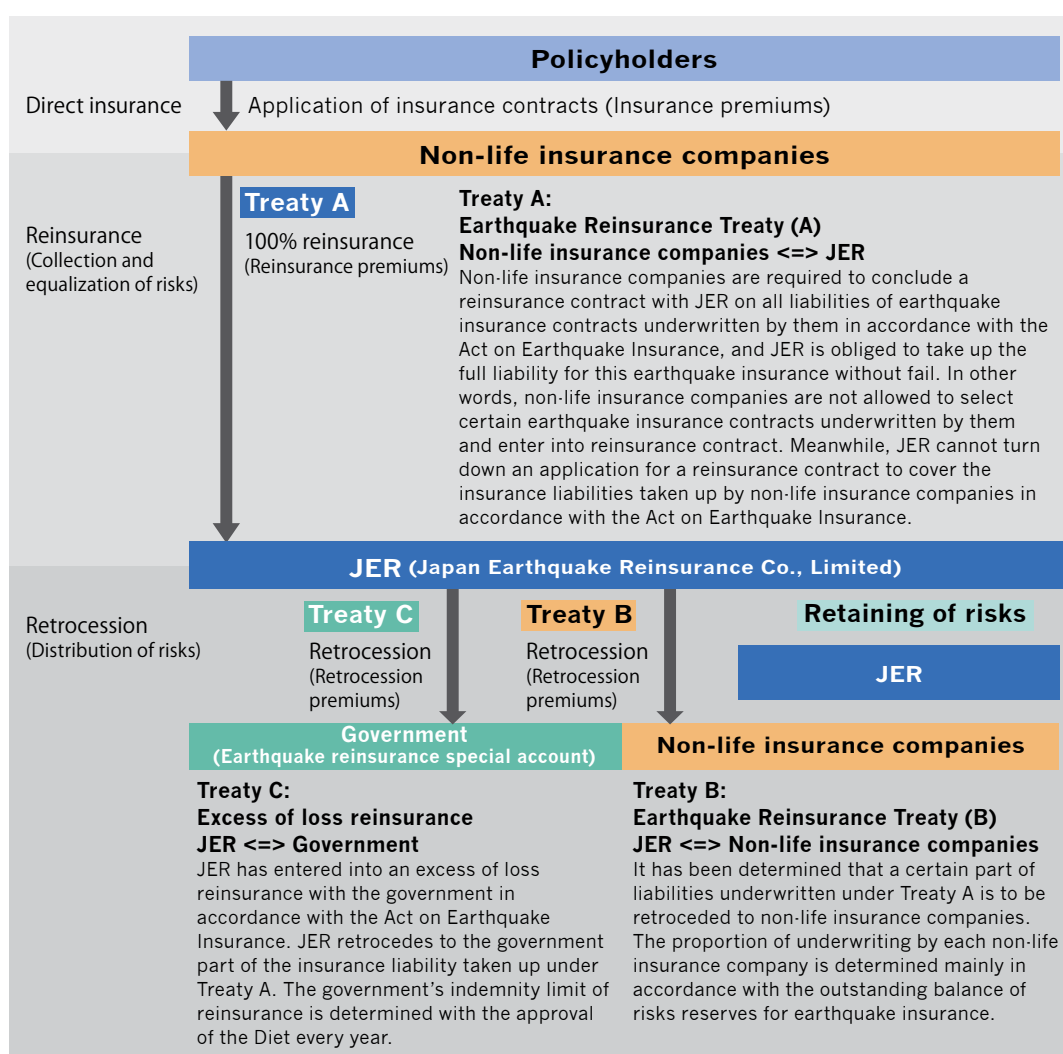
This means that the amount of reinsurance claim paid by JER is the same as the amount of the insurance claim paid to the policyholder by the non-life insurance company.

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.

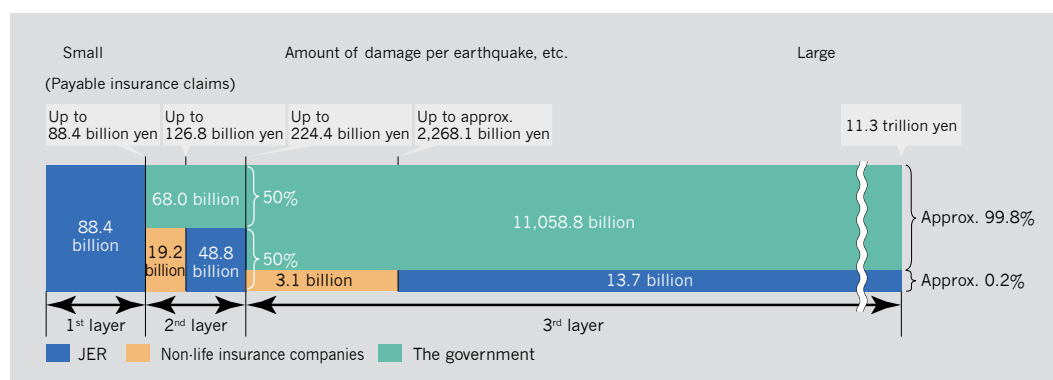




INSURANCE LIABILITIES HELD BY JER, NON-LIFE INSURANCE COMPANIES AND THE GOVERNMENT

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 2017

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 reinsurance 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	303.9 billion yen
Non-life insurance companies	47.7 billion yen
The government	1,520.1 billion yen
Total	1,871.8 billion yen

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

Note 2: Government reserves will be finalized when the settlement for fiscal 2017 is approved by the Diet.

STATISTICS

REINSURANCE CLAIMS PAID IN FISCAL 2017

Reinsurance claims paid in fiscal 2017 amounted to 14.7 billion yen, including earthquake reinsurance claims paid to cover the 2016 Kumamoto Earthquake. In terms of numbers, 16,385 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	6,249	7,061
2. The 2011 off the Pacific coast of Tohoku	March 11, 2011	9.0	5,219	4,662
3. Tottori-ken Chubu	October 21, 2016	6.6	990	594
4. Fukushima-ken-oki	November 22, 2016	7.4	696	456
5. Ibaraki-ken North	December 28, 2016	6.3	510	341
Other earthquakes	—	—	2,721	1,670
Total	—	—	16,385	14,786

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	26,115	8,812	33.7	Nearly 0%–5%
Tokyo metropolitan	18,475	6,346	34.3	About 70%
Nankai trough	44,228	14,171	32.0	70%–80%

Note 1: Number of households is prepared based on data of the Ministry of Internal Affairs and Communications (as of January 1, 2017).

2: JER prepared the number of policies, assuming that major prefectures were stricken, based on the preliminary figures as of the end of 2016 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 2018 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, 2018)

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	812,371	1,279,517
2. The 2016 Kumamoto	April 14, 2016	7.3	206,278	382,360
3. Hyogo-ken Nanbu	January 17, 1995	7.3	65,427	78,346
4. Miyagi-ken-oki	April 7, 2011	7.2	31,008	32,393
5. Fukuoka-ken Seiho-oki	March 20, 2005	7.0	22,066	16,973
6. Geiyo	March 24, 2001	6.7	24,453	16,942
7. Niigata-ken Chuetsu	October 23, 2004	6.8	12,608	14,897
8. Niigata-ken Chuetsu-oki	July 16, 2007	6.8	7,870	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. Tottori-ken Chubu	October 21, 2016	6.6	6,528	5,191
13. Suruga-wan	August 11, 2009	6.5	9,529	5,178
14. Shizuoka-ken Tobu	March 15, 2011	6.4	5,392	4,692
15. Iwate-ken Engan Hokubu	July 24, 2008	6.8	7,756	3,973
16. Fukushima-ken Hamadori	April 11, 2011	7.0	2,377	3,681
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	3,308	2,734
20. Awajishima fukin	April 13, 2013	6.3	2,954	2,346

Note 1: After the 2011 off the Pacific coast of Tohoku, in accordance with our reinsurance scheme at the time, the government paid 582,258 million yen and JER and non-life insurance companies paid 697,258 million yen.

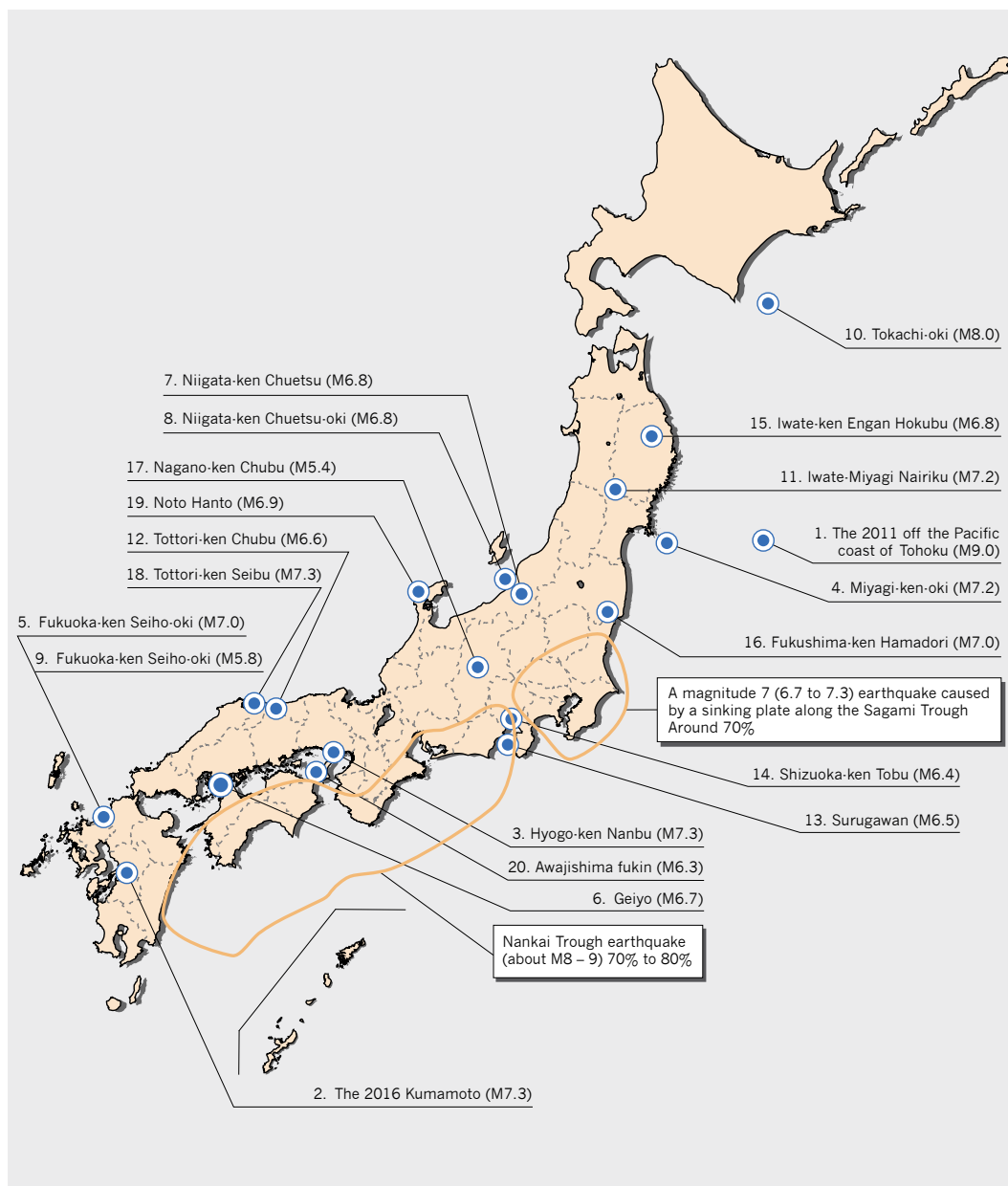
2: After the 2016 Kumamoto Earthquake, in accordance with our reinsurance scheme at the time, the government paid 133,530 million yen and JER and non-life insurance companies paid 248,830 million yen.

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.

The Japanese economy continued its moderate expansion in fiscal 2017 with benefits brought to the export sector by the sustained growth of overseas economies, in addition to support from the extremely relaxed financial policies of the Bank of Japan.

Premiums written increased from the previous fiscal year under the effects of a premium rate revision that was implemented in January 2017. However, net premiums written excluding reinsurance premiums ceded decreased because reinsurance premiums ceded to the government grew as a result of the revision of the reinsurance scheme for earthquake insurance in April 2017. Net claims paid and loss adjustment expenses decreased from the previous fiscal year, reflecting a gradual reduction in insurance payouts for the Kumamoto Earthquakes.

Looking at asset management, investment income fell from the previous fiscal year as the situation of extremely low interest rates continued and the redemption of high-yield bonds advanced under tough conditions for managing new assets.

JER worked on 29 management items in fiscal 2017, which it positioned as the final year under the fourth medium-term business plan "Strengthening Arrangements for Earthquake Reinsurance Payouts." Overall, JER achieved the targets set for those items in the fiscal year under review.

As key measures, JER studied ways of improving credit risk management systems and revised new system foundations, in addition to working to achieve appropriate and realistic additional contribution ratios in the earthquake insurance system.

Summary of earthquake insurance results

① Net premiums written and net claims paid

Premiums written rose from the previous fiscal year, but reinsurance premiums ceded to the government grew as a result of the revision of the reinsurance scheme for earthquake insurance in April 2017. As a result, net premiums written decreased to 97.3 billion yen (down 14.7% year on year).

In the meantime, net claims paid fell to 8.9 billion yen (down 96.0% year on year), reflecting factors including the Kumamoto earthquakes.

② Risk reserves and underwriting reserves

JER added a total of 34.6 billion yen, including net premiums written and held of 34.3 billion yen, calculated by deducting assumed reinsurance commissions from net premiums written, and investment income of 0.3 billion yen, to its risk reserves (down 33.4% year on year).

Furthermore, JER returned the provision for outstanding claims of 1.8 billion yen to the risk reserves, and withdrew the net claims paid of 8.9 billion yen stated above, damage research expenses of 2.1 billion yen, and advertising and publicity expenses of 0.3 billion yen from the risk reserves posted for the past year. As a result, risk reserves at the end of the fiscal year under review came to 303.9 billion yen (up 9.0% year on year).

Underwriting reserves at the end of the fiscal year under review amounted to 495.6 billion yen (up 8.5% 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

JER added a total of 3.1 billion yen (down 30.8% year on year), including net premiums written and investment income, 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 47.7 billion yen (up 1.8% year on year) after withdrawing advertising and publicity expenses of 2.3 billion yen.

Outline of investments

Conditions for extremely low interest rates remained stable in Japan under the policy of quantitative and qualitative monetary easing with yield curve control advanced by the Bank of Japan. Investment conditions for JER remained severe with continued negative interest rates on short- and medium-term bonds, which are JER's main investment targets.

Looking at exchange rates, an interest rate hike in the United States was a factor in the appreciation of the U.S. dollar. However, the yen gradually strengthened against the U.S. dollar as U.S. political pressure for correcting the trade imbalance and long-term interest rates in the United States calmed down. The yen weakened against the euro in response to the monetary tightening policy announced by the European Central Bank with the sustained recovery of the European economy in the background.

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 0.3 billion yen in the business account and 71.2 million yen in the entrusted reserves account. Investment assets came to 533.5 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 loss for the fiscal year under review came to 0.6 million yen.

INDICATORS SHOWING THE MAIN RESULTS OVER THE LAST FIVE FISCAL YEARS

		(Yen in millions)				
Division	Fiscal Year	2013	2014	2015	2016	2017
Net premiums written		92,248	108,994	121,986	114,114	97,302
Percentage change over the previous term		(0.8%)	18.2%	11.9%	(6.5%)	(14.7%)
Net claims paid		15,010	9,563	5,589	220,905	8,924
Percentage change over the previous term		(52.5%)	(36.3%)	(41.6%)	3,852.3%	(96.0%)
Ordinary income		104,703	119,822	129,107	289,485	101,288
Percentage change over the previous term		(5.1%)	14.4%	7.7%	124.2%	(65.0%)
Ordinary expenses		104,509	119,818	129,107	289,487	101,290
Percentage change over the previous term		(5.1%)	14.6%	7.8%	124.2%	(65.0%)
Ordinary profit (loss)		194	3	0	(1)	(1)
Percentage change over the previous term		0.3%	(98.2%)	(98.4%)	(3,537.5%)	-
Net income (loss)		(82)	3	(0)	1	(0)
Percentage change over the previous term		(2,045.2%)	-	(115.6%)	-	(159.8%)
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		1,544	1,543	1,542	1,542	1,540
Total assets		577,305	640,137	709,408	511,297	549,220
Underwriting reserves		499,274	556,727	627,345	456,745	495,634
Percentage change over the previous term		8.2%	11.5%	12.7%	(27.2%)	8.5%
Of the balance, risk reserves		378,041	417,056	464,584	278,846	303,954
Percentage change over the previous term		7.1%	10.3%	11.4%	(40.0%)	9.0%
Loans		-	-	-	-	-
Percentage change over the previous term		-	-	-	-	-
Securities		525,161	391,034	401,751	234,580	200,239
Percentage change over the previous term		10.1%	(25.5%)	2.7%	(41.6%)	(14.6%)
Non-consolidated solvency-margin ratio		344.9%	354.5%	392.1%	299.1%	379.6%
Dividend propensity		-	-	-	-	-
No. of employees		26	29	28	26	28

Note:

JER's solvency-margin ratio will not be used as a criterion for the administrative authorities' order for improvement. For details, please refer to page 34.

SUMMARY OF OPERATIONS

1 Indicators relating to insurance underwriting

1. Net premiums written

		(Yen in millions)		
Division	Fiscal Year	2015	2016	2017
Premiums written		245,353	247,441	261,556
Return premiums		6,708	4,342	4,316
Assumed net premiums written (A)		238,645	243,099	257,239
Reinsurance premiums ceded (B)		116,659	128,984	159,937
Net premiums written (A - B)		121,986	114,114	97,302

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	2015	2016	2017
Domestic contract		100%	100%	100%

3. Net claims paid

		(Yen in millions)		
Division	Fiscal Year	2015	2016	2017
Assumed net claims paid (A)		8,214	388,527	14,786
Reinsurance claims recovered (B)		2,625	167,622	5,861
Net claims paid (A - B)		5,589	220,905	8,924

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	2015	2016	2017
Net loss ratio		5.3%	206.0%	11.4%
Underwriting expenses		46,606	47,409	49,481
Insurance related operating, general and administrative expenses		725	734	1,054
Commissions and brokerage fees		45,880	46,675	48,426
Net expense ratio		38.2%	41.5%	50.9%
Combined ratio		43.5%	247.5%	62.3%

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	2015	2016	2017
Underwriting income		123,681	284,934	99,430
Underwriting expenses		122,956	284,200	98,375
Operating and general administrative expenses		725	734	1,054
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	2015	2016	2017
No. of reinsurers that ceded insurance contracts		10	11	9
Rate of top five reinsurers' ceded insurance premiums		91.5%	89.8%	90.4%

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

JER is the only company in Japan that specializes in reinsurance for earthquake insurance. JER attaches top priority to the guarantee of liquidity and safety in earthquake reinsurance payouts because the time and scale of an earthquake are unpredictable, and the liquidation of all investment assets is possible. In asset management, JER is striving to maintain and strengthen its capacity for earthquake reinsurance payouts through the guarantee of funds for payments and the expansion of risk reserves.

2. Total assets and investments assets

Division	Year	As of the end of fiscal 2015		As of the end of fiscal 2016		As of the end of fiscal 2017	
		Amount	Percentage distribution (%)	Amount	Percentage distribution (%)	Amount	Percentage distribution (%)
Deposits		189,215	26.7	260,534	51.0	333,194	60.7
Call loans		4,668	0.7	1,040	0.2	90	0.0
Monetary receivables bought		94,596	13.3	-	-	-	-
Money trusts		-	-	-	-	-	-
Securities		401,751	56.6	234,580	45.9	200,239	36.5
Buildings		27	0.0	25	0.0	24	0.0
Total of investments assets		690,258	97.3	496,181	97.0	533,548	97.1
Total assets		709,408	100.0	511,297	100.0	549,220	100.0

4. Asset management yield (realized yield)

Division	Fiscal Year	2015			2016			2017		
		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		34	60,181	0.06	7	233,671	0.00	5	300,366	0.00
Call loans		8	38,187	0.02	0	1,471	0.00	0	388	0.00
Monetary receivables bought		144	184,504	0.08	3	20,157	0.02	-	-	-
Money trusts		-	-	-	-	-	-	-	-	-
Securities		2,475	368,634	0.67	1,419	294,061	0.48	1,216	215,283	0.57
Public and corporate bonds		818	250,382	0.33	662	251,126	0.26	556	179,425	0.31
Stocks		-	-	-	-	-	-	-	-	-
Foreign securities		1,657	118,251	1.40	757	42,934	1.76	659	35,857	1.84
Other securities		-	-	-	-	-	-	-	-	-
Loans		-	-	-	-	-	-	-	-	-
Buildings		-	28	-	-	27	-	-	25	-
Derivatives		3,954	-	-	3,329	-	-	929	-	-
Others		(4,494)	-	-	(3,791)	-	-	(1,404)	-	-
Total		2,124	651,536	0.33	968	549,390	0.18	747	516,064	0.14

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.

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

Division	Fiscal Year	2015		2016		2017	
		Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
Deposits		34	0.06	7	0.00	5	0.00
Call loans		8	0.02	0	0.00	0	0.00
Monetary receivables bought		144	0.08	3	0.02	-	-
Money trusts		-	-	-	-	-	-
Securities		2,280	0.62	1,283	0.44	1,176	0.55
Buildings		-	-	-	-	-	-
Total		2,468	0.38	1,294	0.24	1,181	0.23

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

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

(Yen in millions)

Division	Fiscal Year	2015			2016			2017		
		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		34	60,181	0.06	7	233,671	0.00	5	300,366	0.00
Call loans		8	38,187	0.02	0	1,471	0.00	0	388	0.00
Monetary receivables bought		144	184,504	0.08	3	20,157	0.02	-	-	-
Money trusts		-	-	-	-	-	-	-	-	-
Securities		2,800	372,030	0.75	212	297,783	0.07	(71)	217,797	(0.03)
Public and corporate bonds		2,014	252,572	0.80	(227)	254,512	(0.09)	(63)	181,922	(0.04)
Stocks		-	-	-	-	-	-	-	-	-
Foreign securities		786	119,458	0.66	439	43,270	1.01	(7)	35,874	(0.02)
Other securities		-	-	-	-	-	-	-	-	-
Loans		-	-	-	-	-	-	-	-	-
Buildings		-	28	-	-	27	-	-	25	-
Derivatives		3,954	-	-	3,329	-	-	929	-	-
Others		(4,494)	-	-	(3,791)	-	-	(1,404)	-	-
Total		2,449	654,932	0.37	(239)	553,111	(0.04)	(540)	518,578	(0.10)

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 2015		As of the end of fiscal 2016		As of the end of fiscal 2017	
		Amount	Percentage distribution (%)	Amount	Percentage distribution (%)	Amount	Percentage distribution (%)
Foreign currency denominated							
Foreign public and corporate bonds		76,404	69.8	14,910	56.4	24,361	70.0
Yen denominated							
Foreign public and corporate bonds		33,118	30.2	11,525	43.6	10,460	30.0
Total		109,523	100.0	26,435	100.0	34,822	100.0
Yield on foreign loans & investments							
Investment assets yield (income yield)			1.39%		1.45%		1.88%
Assets management (realized yield)			1.40%		1.76%		1.84%
Market-price based overall yield (for reference)			0.66%		1.01%		(0.02%)

Note:

Of the yield on foreign loans & investments, the investment assets yield was calculated in the same manner as 3., Amount of interest and dividend received and yield on investment assets (income yield) in connection with the assets involving foreign 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 2016	As of the end of fiscal 2017
Total amount of non-consolidated solvency-margin		282,607	306,691
Common stock, etc.		1,540	1,539
Price fluctuation reserves		2	1
Risk reserves		-	-
Catastrophe reserves		278,846	303,954
Reserves for ordinary bad debts		-	-
Unrealized gain/loss on available-for-sale securities / Deferred gain/loss on hedges		2,218	1,195
(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 $\sqrt{(R1 + R2)^2 + (R3 + R4)^2} + R5 + R6$		188,948	161,550
General underwriting risk (R1)		-	-
Underwriting risk in third-area insurance (R2)		-	-
(B) Anticipated rate of return risk (R3)		-	-
Investment risk (R4)		7,343	7,482
Management risk (R5)		3,704	3,167
Catastrophe risk (R6)		177,900	150,900
(C) Non-consolidated solvency-margin ratio $\frac{(A)}{[(B) \times 1 / 2]} \times 100$		299.1%	379.6%

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	2016	2017
		(As of March 31, 2017)	(As of March 31, 2018)
		Amount	Amount
Cash and deposits		260,534	333,194
Deposits		260,534	333,194
Call loans		1,040	90
Securities		234,580	200,239
Government bonds		91,419	62,581
Municipal bonds		24,257	20,051
Corporate bonds		92,467	82,784
Foreign securities		26,435	34,822
Tangible fixed assets		43	125
Buildings		25	24
Other tangible fixed assets		17	101
Intangible fixed assets		227	261
Software		173	259
Software in progress		52	-
Other intangible fixed assets		1	1
Other assets		14,870	15,309
Reinsurance accounts receivable		14,464	14,234
Accounts receivable		-	0
Uncollected income		261	309
Deposits		46	46
Suspense payments		17	2
Derivatives		80	715
Total assets		511,297	549,220

(LIABILITIES)

Item	(Yen in millions)		
	Fiscal Year	2016	2017
		(As of March 31, 2017)	(As of March 31, 2018)
		Amount	Amount
Underwriting funds		460,327	497,407
Outstanding claims		3,581	1,773
Underwriting reserves		456,745	495,634
Entrusted reserves		36,103	37,499
Other liabilities		10,630	11,360
Reinsurance accounts payable		9,709	11,180
Income taxes payable		144	109
Deposits payable		3	5
Accrued amounts payable		328	61
Derivatives		444	3
Reserve for retirement benefits		151	154
Reserve for directors' retirement benefits		5	9
Reserve for bonus payments		22	21
Reserves under the special law		2	1
Reserve for price fluctuation		2	1
Net unrealized gains on available-for-sale securities of earthquake insurance		2,511	1,225
Deferred tax liabilities		0	0
Total liabilities		509,755	547,680

(NET ASSETS)

Item	(Yen in millions)		
	Fiscal Year	2016	2017
		(As of March 31, 2017)	(As of March 31, 2018)
		Amount	Amount
Common stock		1,000	1,000
Retained earnings		546	545
Legal reserve of retained earnings		1	1
Other legal reserve of retained earnings		545	544
Special reserves		17	17
Special price fluctuation reserves		39	39
Retained earnings carried forward		488	487
Treasury Stock		(5)	(5)
Total shareholders' equity		1,540	1,539
Net unrealized gains on available-for-sale securities		2	0
Total valuation and translation adjustments		2	0
Total net assets		1,542	1,540
Total liabilities and net assets		511,297	549,220

Notes for fiscal 2017

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. 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, 2018.

(Yen in millions)

	Balance sheet amount	Fair value	Difference
(i) Cash and deposits	333,194	333,194	-
(ii) Call loans	90	90	-
(iii) Securities			
Available-for-sale securities	200,239	200,239	-
Total assets	533,524	533,524	-
(iv) Derivatives* to which hedge accounting is not applied	711	711	-
Derivatives total	711	711	-

*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.

3. Taxes are included when preparing accounts for consumption tax and other items.
4. 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.
5. The accumulated depreciation of tangible fixed assets is 113 million yen.
6. See below for a breakdown of outstanding claims.

(Yen in millions)	
Outstanding claims (before the deduction of outstanding reinsurance claims)	2,881
Outstanding reinsurance claims related to the above claims	1,108
Net outstanding claims	1,773

7. Total deferred tax assets amount to 441 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 358 million yen, a reserve for retirement benefits of 43 million yen, unpaid business taxes of 21 million yen and unpaid special local corporate tax of 8 million yen. Deferred tax liabilities resulted mainly from unrealized gains on securities of 0 million yen.
8. 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.
9. Net assets per share are 774.54 yen. The basis for this calculation is that net assets are 1,540 million yen, net assets accrued from ordinary shares are 1,540 million yen and the number of ordinary shares at the end of the term is 1.988 million.
10. Each amount is rounded down to the nearest whole unit.

2. Statements of income

Item	(Yen in millions)	
	Fiscal Year	
	2016 (from April 1, 2016 to March 31, 2017)	2017 (from April 1, 2017 to March 31, 2018)
	Amount	Amount
Ordinary income	289,485	101,288
Underwriting income	284,934	99,430
Net premiums written	114,114	97,302
Investment income on savings premiums	220	319
Reversal of outstanding claims	-	1,808
Reversal of policy reserve	170,599	-
Investment income	4,550	1,858
Interest and dividend income	1,294	1,181
Gains on sales of securities	147	63
Gains on derivatives	3,329	929
Other investment income	0	3
Transfer of investment income on savings premiums	(220)	(319)
Other ordinary income	0	0
Ordinary expenses	289,487	101,290
Underwriting expenses	284,200	98,375
Net claims paid	220,905	8,924
Loss adjustment expenses	14,190	2,135
Commissions and brokerage fees	46,675	48,426
Provision of outstanding claims	2,429	-
Provision of underwriting reserves	-	38,888
Investment expenses	3,803	1,429
Loss on sales of securities	10	22
Foreign exchange losses	3,773	1,386
Other investment expenses	19	20
Operating, general and administrative expenses	1,345	1,413
Other ordinary expenses	138	71
Interest paid	138	71
Ordinary profit (loss)	(1)	(1)
Extraordinary income	3	1
Reversal of reserve for price fluctuation	3	1
Net income (loss) before income taxes	1	(0)
Income taxes	0	0
Total income taxes	0	0
Net income (loss)	1	(0)

Notes for fiscal 2017

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

	(Yen in millions)
Premiums written:	257,239
Reinsurance premiums ceded:	159,937
Net premiums written:	97,302

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

	(Yen in millions)
Claims paid:	14,786
Reinsurance claims recovered:	5,861
Net claims paid:	8,924

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)	(2,990)
Provision of outstanding reinsurance claims related to the above claims	(1,182)
Net provision of outstanding claims	(1,808)

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

	(Yen in millions)
Deposits:	5
Call loans:	0
Securities:	1,176
Total:	1,181

5. Paper profit/loss involved in the gains on derivatives is a profit of 711 million yen.

6. Net loss per share is 0.34 yen.

The basis for this calculation is such that net loss is 0 million yen, net loss accrued from common stocks is 0 million yen and the term average number of common stocks amount to 1.988 million.

7. The legal effective tax rate at the end of the term is 28.24%, and the corporate tax burden after applying the tax effect is (73.59%). The difference is explained by the following breakdown: valuation reserve (23,162.17%), the amount of the write-off carried from publicity expenses related to risk reserves 23,213.07%.

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

3. Statements of cash flow

Item	(Yen in millions)		
	Fiscal Year	2016 (from April 1, 2016 to March 31, 2017)	2017 (from April 1, 2017 to March 31, 2018)
	Amount	Amount	
Cash flow from operating activities			
Net income before income taxes	1	(0)	
Depreciation	88	115	
Increase (decrease) in outstanding claims	2,429	(1,808)	
Increase (decrease) in underwriting reserves	(170,599)	38,888	
Increase (decrease) in entrusted reserves	(30,999)	1,396	
Increase (decrease) in reserve for retirement benefits	5	2	
Increase (decrease) in reserve for directors' retirement benefits	(3)	4	
Increase (decrease) in reserve for bonus payments	0	(0)	
Increase (decrease) in reserve for price fluctuation	(3)	(1)	
Interest and dividend income	(1,294)	(1,181)	
Losses (gains) on investment in securities	(136)	(40)	
Foreign exchange losses (gains)	3,865	1,904	
Decrease (increase) in other assets (other than investment and financial activities related)	(2,079)	244	
Increase (decrease) in other liabilities (other than investment and financial activities related)	1,862	1,205	
Others	5,603	(1,110)	
Subtotal	(191,258)	39,620	
Interest and dividends received	3,009	1,654	
Income taxes paid	(0)	(0)	
Net cash provided by operating activities	(188,249)	41,274	
Cash flow from investing activities			
Net decrease (increase) in cash and deposits	(3,000)	-	
Proceeds from sales and redemption of monetary receivables bought	71,597	-	
Purchase of securities	(21,306)	(112,994)	
Proceeds from sales and redemption of securities	182,791	143,662	
Total investment assets activities	230,082	30,667	
Total operating activities and investment assets activities	41,833	71,941	
Acquisition of tangible fixed assets	(0)	(117)	
Others	(140)	(114)	
Net cash provided by investing activities	229,941	30,435	
Cash flow in financing activities			
Effect of exchange rate changes on cash and cash equivalents			
	-	-	
Net increase (decrease) in cash and cash equivalents	41,692	71,709	
Cash and cash equivalents at the beginning of the year	205,882	247,574	
Cash and cash equivalents at the end of the year	247,574	319,284	

Notes for fiscal 2017

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, 2017)	(As of March 31, 2018)
Cash and deposits	260,534	333,194
Call loans	1,040	90
Securities	234,580	200,239
Deposits of a depository period over three months	(14,000)	(14,000)
Securities other than cash equivalent	(234,580)	(200,239)
Cash and cash equivalents	247,574	319,284

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 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

Fiscal 2017 (from April 1, 2017 to March 31, 2018)

(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	488	546	(5)	1,540	2	2	1,542
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)	(2)
Balance at the end of the period	1,000	1	17	39	487	545	(5)	1,539	0	0	1,540

Notes for fiscal 2017

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 2016	Increase in fiscal 2017	Decrease in fiscal 2017	Balance as of the end of fiscal 2017
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		
	2015	2016	2017
Dividend per share	-	-	-
Net income (loss) per share	(0.23 yen)	0.57 yen	(0.34 yen)
Dividend propensity	-	-	-
Net assets per share	775.61 yen	775.67 yen	774.54 yen
Total assets per employee	24,462	19,665	19,615

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

Division	Year	As of the end of fiscal 2015	As of the end of fiscal 2016	As of the end of fiscal 2017
Deposits		189,215	260,534	333,194
Ordinary deposits		155,655	236,504	309,164
Time deposits		33,560	24,030	24,030

2. Average balance and trading amount of commodity securities

Not applicable

3. Balance of securities by category and percentage distribution

Division	Year	As of the end of fiscal 2015		As of the end of fiscal 2016		As of the end of fiscal 2017	
		Amount	Percentage distribution (%)	Amount	Percentage distribution (%)	Amount	Percentage distribution (%)
Government bonds		93,829	23.4	91,419	39.0	62,581	31.3
Municipal bonds		43,526	10.8	24,257	10.3	20,051	10.0
Corporate bonds		154,871	38.5	92,467	39.4	82,784	41.3
Stocks		-	-	-	-	-	-
Foreign securities		109,523	27.3	26,435	11.3	34,822	17.4
Other securities		-	-	-	-	-	-
Total		401,751	100.0	234,580	100.0	200,239	100.0

4. Yield on securities held

Division	Fiscal Year		
	2015	2016	2017
Investment assets yield (income yield)			
Public & corporate bonds	0.25	0.26	0.28
Stocks	-	-	-
Foreign securities	1.39	1.45	1.88
Other securities	-	-	-
Total	0.62	0.44	0.55
Assets management yield (realized yield)			
Public & corporate bonds	0.33	0.26	0.31
Stocks	-	-	-
Foreign securities	1.40	1.76	1.84
Other securities	-	-	-
Total	0.67	0.48	0.57
Market-price based overall yield (for reference)			
Public & corporate bonds	0.80	(0.09)	(0.04)
Stocks	-	-	-
Foreign securities	0.66	1.01	(0.02)
Other securities	-	-	-
Total	0.75	0.07	(0.03)

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 2016

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

As of the end of fiscal 2017

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	4,148	37,106	12,069	-	-	9,256	62,581
Municipal bonds	8,834	6,960	2,327	1,928	-	-	20,051
Corporate bonds	12,455	57,829	10,642	1,856	-	-	82,784
Stocks	-	-	-	-	-	-	-
Foreign securities	9,858	17,615	7,348	-	-	-	34,822
Other securities	-	-	-	-	-	-	-
Total	35,297	119,512	32,388	3,785	-	9,256	200,239

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, 2018.

12. Tangible fixed assets by category

(Yen in millions)

Division	Year	As of the end of fiscal 2015	As of the end of fiscal 2016	As of the end of fiscal 2017
Land		-	-	-
for underwriting		-	-	-
for investment		-	-	-
Buildings		27	25	24
for underwriting		27	25	24
for investment		-	-	-
Construction in progress		-	-	-
for underwriting		-	-	-
for investment		-	-	-
Total of property		27	25	24
for underwriting		27	25	24
for investment		-	-	-
Leased assets		-	-	-
Other tangible fixed assets		39	17	101
Total		66	43	125

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 2015	As of the end of fiscal 2016	As of the end of fiscal 2017
Outstanding claims		1,152	3,581	1,773
Underwriting reserves		627,345	456,745	495,634
Risk reserves		464,584	278,846	303,954
Unearned premium reserves		162,760	177,899	191,679
Total		628,497	460,327	497,407

16. Level of underwriting reserves

There is no target contact.

17. Detailed listing of liability reserves

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

As of the end of fiscal 2017

(Yen in millions)

Division	Balance as of the end of fiscal 2016	Increase in fiscal 2017	Decrease in fiscal 2017	Balance as of the end of fiscal 2017
Reserve for ordinary bad debts	-	-	-	-
Reserve for individual bad debts	-	-	-	-
Reserve for specific foreign securities	-	-	-	-
Reserve for retirement benefits	151	14	12	154
Reserve for directors' retirement benefits	5	4	-	9
Reserve for bonus payments	22	21	22	21
Reserve for price fluctuation	2	-	1	1
Total	182	40	36	186

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	2015	2016	2017
Government bonds		181	2	63
Foreign securities		12	144	–
Total		194	147	63

2. Losses on sales of securities by category

(Yen in millions)				
Division	Fiscal Year	2015	2016	2017
Government bonds		–	–	8
Foreign securities		–	10	13
Total		–	10	22

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	2015	2016	2017
Land		–	–	–
Buildings		–	–	–
Other tangible fixed assets		0	–	–
Total		0	–	–

6. Business expenses (inclusive of loss adjustment)

(Yen in millions)				
Division	Fiscal Year	2015	2016	2017
Personnel expenses		404	3,311	651
Non personnel expenses		1,527	11,914	2,633
Taxes		331	310	264
Commissions and brokerage fees		45,880	46,675	48,426
Total		48,144	62,211	51,976

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 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

As of the end of fiscal 2017

(Yen in millions)					
Type of asset	Acquisition cost	Depreciation in fiscal 2017	Aggregated depreciations	Balance as the end of fiscal 2017	Rate of aggregated depreciations %
Tangible fixed assets					
Buildings	85	1	61	24	71.4
for underwriting	85	1	61	24	71.4
for investment	–	–	–	–	–
Other tangible fixed assets	153	33	52	101	34.1
Total	239	34	113	125	47.4
Intangible fixed assets					
Software	504	81	244	259	48.5
Other intangible fixed assets	1	–	–	1	–
Total	505	81	244	261	48.3
Grand total	745	115	358	387	48.0

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 2 on the balance sheet (page 36).

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 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

As of the end of fiscal 2017

(Yen in millions)

Division	Type	Acquisition cost	Book value	Difference
Securities whose carrying amount exceeds their cost	Public & corporate bonds	82,837	84,766	1,928
	Stocks	-	-	-
	Foreign securities	500	502	2
	Others	-	-	-
	Subtotal	83,337	85,268	1,931
Securities whose carrying amount does not exceed their cost	Public & corporate bonds	80,703	80,650	(53)
	Stocks	-	-	-
	Foreign securities	36,214	34,320	(1,894)
	Others	-	-	-
	Subtotal	116,918	114,971	(1,947)
Total		200,256	200,239	(16)

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

(Yen in millions)

Type	Fiscal 2016			Fiscal 2017		
	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	3,504	2	-	26,029	63	8
Stocks	-	-	-	-	-	-
Foreign securities	42,893	144	10	2,322	-	13
Others	-	-	-	-	-	-
Total	46,397	147	10	28,352	63	22

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 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)
Total			(363)	(363)

As of the end of fiscal 2017

(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	25,414	-	711	711
Total			711	711

Notes:

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

(ii) Derivative transactions to which hedge accounting is applied

Not applicable

CORPORATE DATA (as of March 31, 2018)

Established:	May 30, 1966
Capital:	1 billion yen
Total assets:	549.2 billion yen
Address:	Hulic Kobuna-cho Building, 8-1, Nihonbashi-kobuna-cho, Chuo-ku, Tokyo Japan 103-0024
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URL:	http://www.nihonjishin.co.jp/



Japan Earthquake Reinsurance