

2019 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 heartfelt sympathy to those who are suffering as a result of the recent earthquake, the epicenter of which was in the offshore of Yamagata Prefecture. I pray for the earliest possible reconstruction of their livelihoods.

In 2018, Japan experienced numerous natural disasters, including the earthquake centered in the northern part of Osaka Prefecture in June and 2018 Hokkaido Eastern Iburi Earthquake in September.

Earthquake insurance was established in 1966 to stabilize the livelihoods of those affected by natural disasters like these. 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, 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 administering assets for future earthquake reinsurance payouts, focusing primarily on asset liquidity and safety.

Reflecting growing interest in earthquake disaster preparedness, the number of earthquake insurance contracts has been increasing with each year to reach an all-time high of more than 19 million policies in force as of the end of March 2019.

JER is in the second year since it commenced the fifth medium-term business plan in fiscal 2018. Under this medium-term business plan, we are working to build strong, sustainable earthquake insurance systems and make business continuity management (BCM) more effective in anticipation of an inland earthquake in the Tokyo Metropolitan area. In asset management, we pursue contributions to corporate earnings through our management capacity buildups while guaranteeing asset liquidity and safety.

As business foundation items underpinning these initiatives, we seek to train experts and promote working conditions that match diverse ways of working. Moreover, we build a governance system that is compatible with environmental changes and make our management more appropriate and effective.

In this new era of Reiwa after Heisei, we will continue making efforts to understand our roles and responsibilities and execute our duties reliably in order to contribute to the development of an earthquake insurance system based on the recognition of our social mission. 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 2019

Makoto Sugimachi
President
Japan Earthquake Reinsurance Co., Ltd.

JAPAN EARTHQUAKE REINSURANCE CO., LTD.

PROFILE

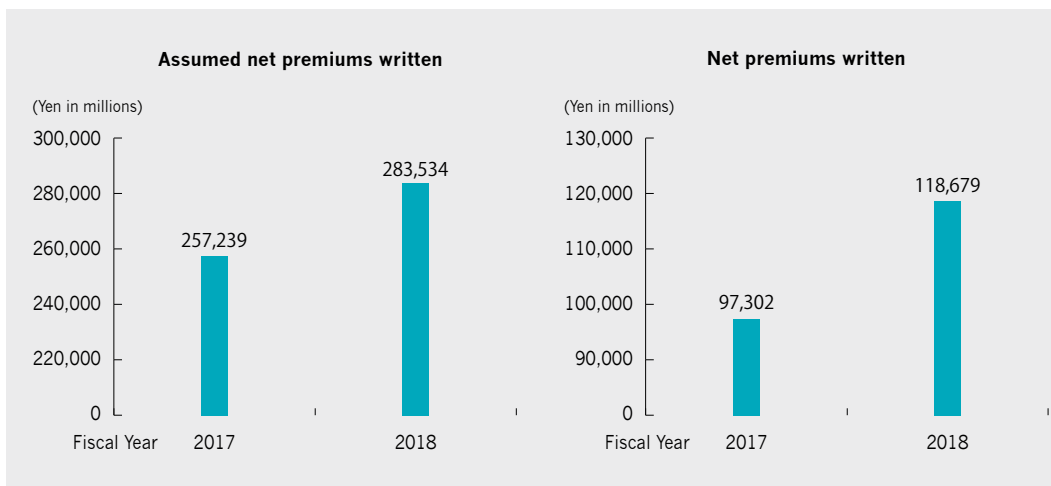
In accordance with the introduction of the Law concerning Earthquake Insurance (Law No. 73, May 18, 1966) and following the launch of sales of earthquake insurance on dwelling risks to be written in conjunction with dwelling and shop-owners comprehensive insurance policies, JER was established with share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

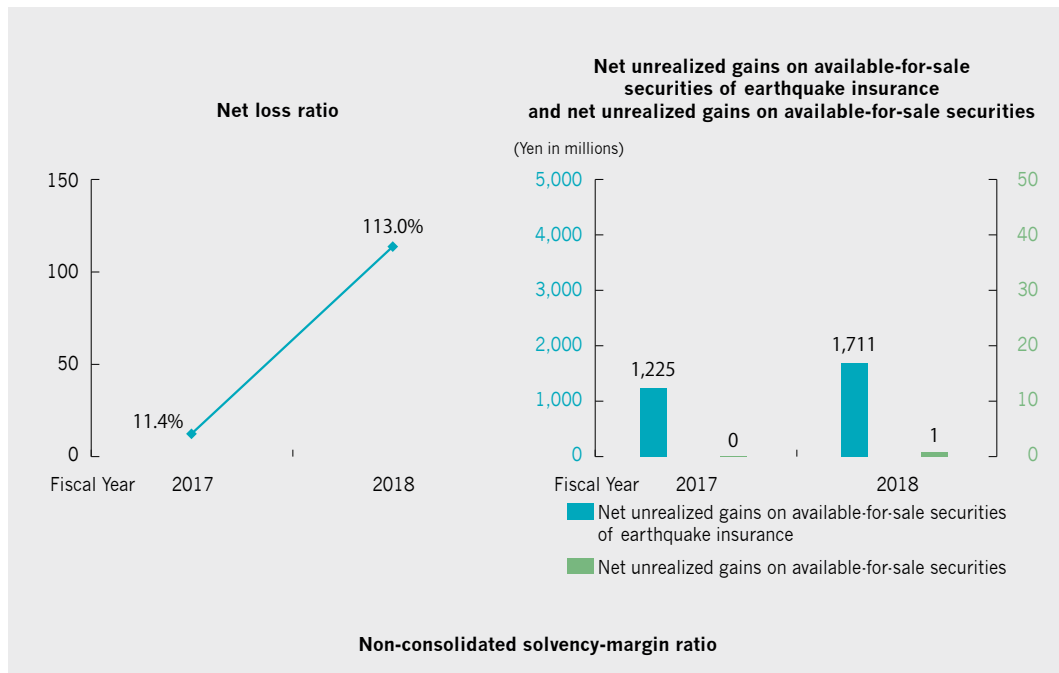
Earthquake insurance on dwelling risks depends on this reinsurance system (which is a safety net, as it were), in which the government, non-life insurance companies and JER participate to ensure that insurance claims can be paid to policyholders without fail.

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.

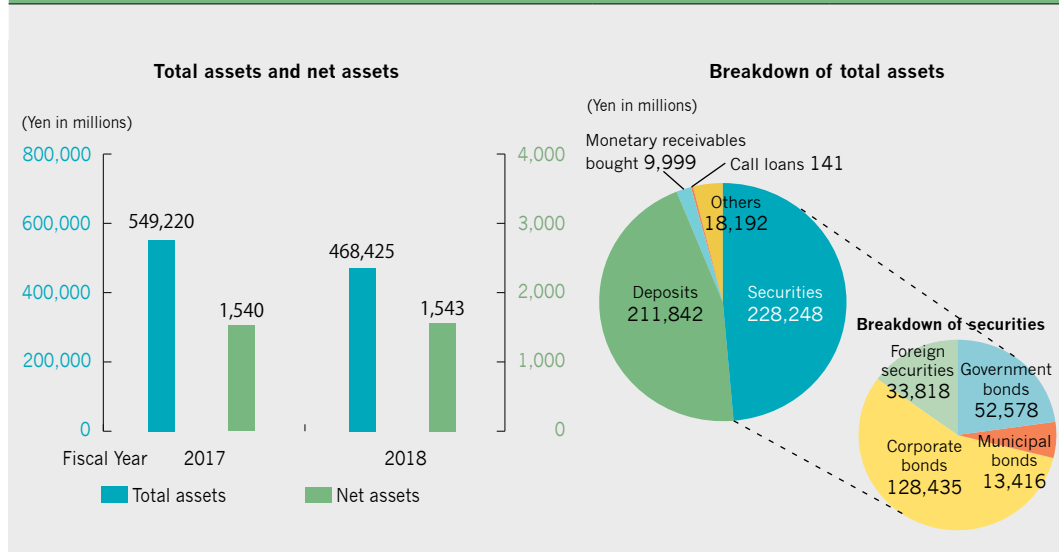
FINANCIAL HIGHLIGHTS





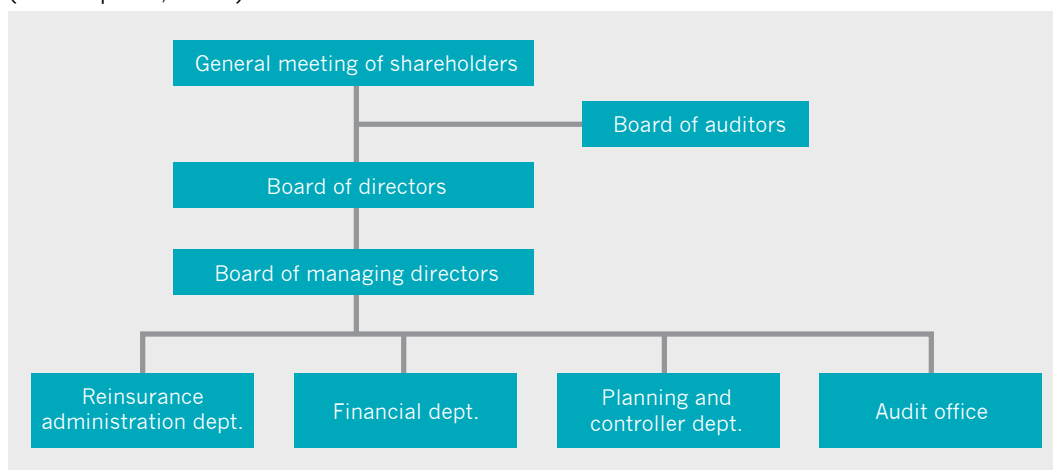
Non-consolidated solvency-margin ratio

Items	FY2017	FY2018
(A) Total amount of non-consolidated solvency-margin	306.6 billion yen	203.8 billion yen
(B) Total amount of non-consolidated risk	161.5 billion yen	137.0 billion yen
Non-consolidated solvency-margin ratio [(A) / {(B)x1/2}] x 100	379.6%	297.6%



ORGANIZATION

(As of April 1, 2019)



SHAREHOLDERS

(As of March 31, 2019)

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
Rakuten General Insurance Co., Ltd.	8	0.4
SECOM General Insurance Co., Ltd.	7	0.4

BOARD MEMBERS (FULL-TIME)

(As of July 1, 2019)

Post	Name
Chairman (representative director)	Yoshihiko Murase
President (representative director)	Makoto Sugimachi
Managing director (representative director)	Shoichiroh Takemoto
Managing director (representative director)	Motomi Ikeda
Corporate auditor	Tsuyoshi Suzuki



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 addition to regular drills by Department, including work-at-home exercises, we conduct drills every fiscal year to handle issues, etc. that have become apparent in the drills conducted in the previous fiscal year and new drills based on reviews from a company-wide perspective by the Project Team (PT) Against Earthquake Disaster, comprising working-level employees. In conducting these drills, we seek to make our preventive measures against earthquake disasters more effective by enhancing all employees' awareness of BCM and disaster prevention.

MAJOR DRILLS IN FISCAL 2018

[SIMULATED OVERNIGHT DRILLS AGAINST POTENTIAL RISKS]

We conduct drills aimed at enabling employees remaining in the office 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 office. In fiscal 2018, the employees who attended the drills reconfirmed storage sites and handling methods for the provisions, including fire extinguishers and fire hydrants installed in the office buildings and lanterns, emergency toilets, storage batteries and stove burners that are always stocked within the office.

[DISASTER PREVENTION EXPERIENCE & LEARNING (SONA AREA TOKYO)]

To increase employees' awareness of preventive measures against earthquake disasters, members of PT Against Earthquake Disaster participated in "Disaster prevention experience & learning," which is designed to simulate the situation in the aftermath of a major earthquake, in a facility called Sona Area Tokyo. In this fiscal year, we plan to have all officers and employees to participate in the disaster prevention experience & learning.

[DRILLS FOR PROCESSING LOSS ADJUSTMENT EXPENSES]

The number of claims for loss adjustment expenses increases significantly when a major earthquake strikes. Making it impossible to handle them within the department in charge alone, employees of other departments attend the training each year to check and input them in a system. In fiscal 2018, the training was carried out for newly hired employees, with the aim of enhancing the level of processing loss adjustment 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.

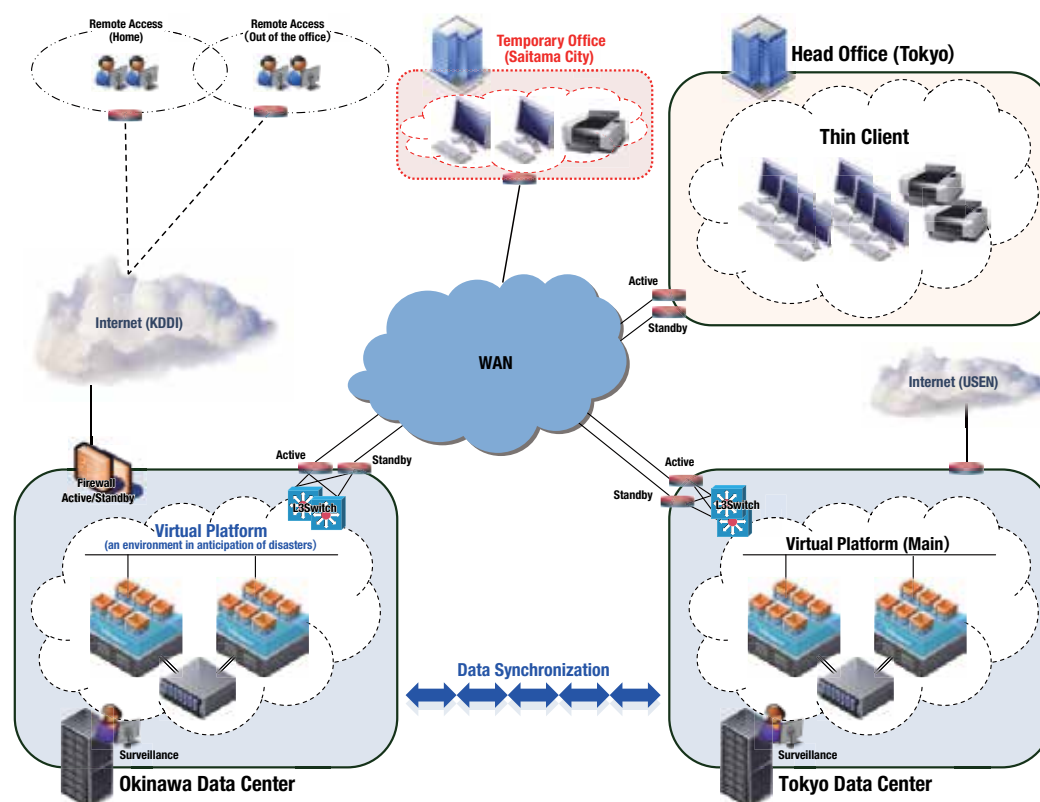


SYSTEM INFRASTRUCTURE IN ANTICIPATION OF AN INLAND EARTHQUAKE IN THE TOKYO METROPOLITAN AREA

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.

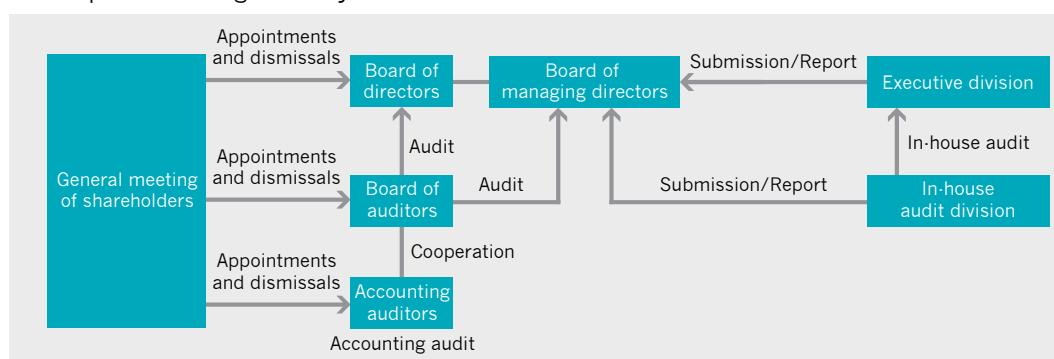
Moreover, we have made our terminals thin clients and concentrated data on the virtual platform to reduce the risk of data loss and information leakage. Combined with a remote access system whereby users outside the company can access the company's system via the Internet, we have created an environment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

We are promoting a better understanding of the earthquake insurance system by dispatching its employees to universities as lecturers. In fiscal 2018, we sent an employee to College of Risk Management, Nihon University in June 2018. Using diagrams, the employee gave explanations covering the outline of the earthquake insurance system, how reinsurance works, the roles played in earthquake insurance by the Japanese government, non-life insurance companies and JER and other matters to students taking courses related to nonlife insurance at the university.

MAJOR EARTHQUAKES IN THE PAST YEAR

Earthquakes that registered a maximum intensity of a weak six or above on the Japanese seismic scale in the period from June 18, 2018 to June 18, 2019 are shown in the following table. We express its heartfelt sympathies to all those affected by the earthquakes.

Date of occurrence	Name	Magnitude (M)	Maximum seismic intensity
June 18, 2018	Earthquake whose epicenter was in the northern part of Osaka	6.1	Weak 6: Kita-ku (Osaka-shi), Takatsuki-shi, Hirakata-shi, Ibaraki-shi and Minoh-shi
September 6, 2018	2018 Hokkaido Eastern Iburi Earthquake	6.7	7: Atsuma-cho
January 3, 2019	Earthquakes centered in Kumamoto District of Kumamoto	5.1	Weak 6: Nagomi-machi
February 21, 2019	Earthquakes centered in the central eastern part of Iburi District	5.8	Weak 6: Atsuma-cho
June 18, 2019	Earthquakes centered offshore from Yamagata	6.7	Strong 6: Murakami-shi

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

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 11,700 billion yen as revised in April 1, 2019 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*

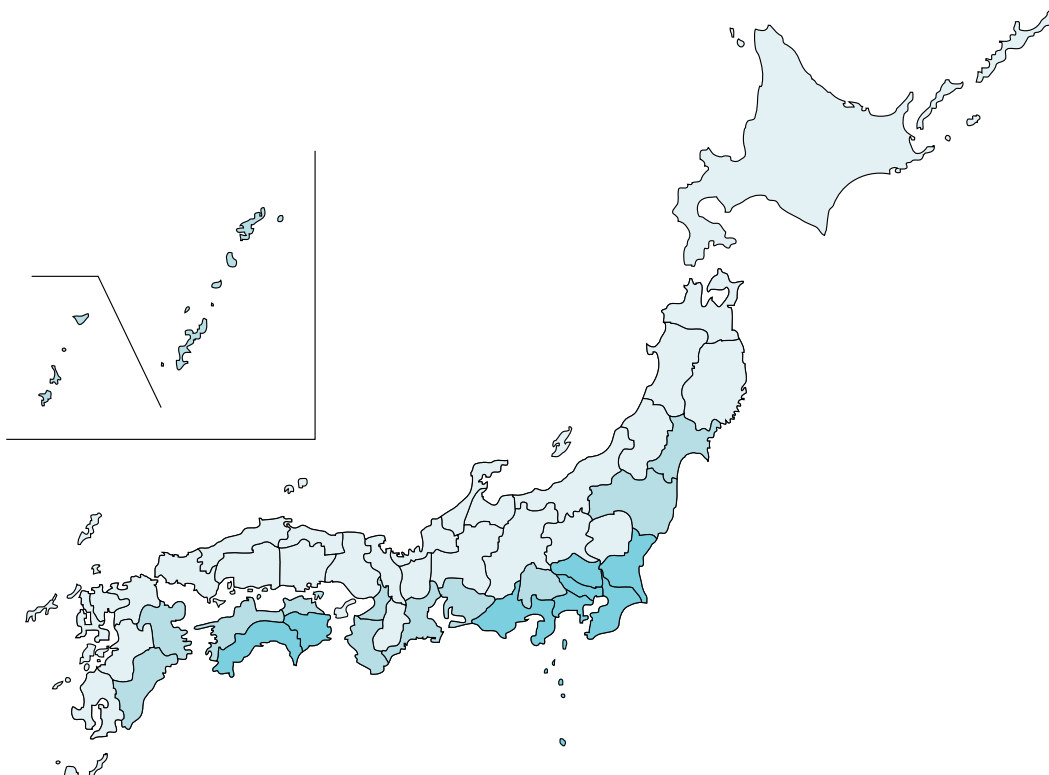
Following on the lessons learned from the Great Hanshin-Awaji Earthquake Disaster, the Special Measure Law on Earthquake Disaster Prevention was enacted to develop a system to facilitate research and study on earthquakes, and based on this Law, the Headquarters for Earthquake Research Promotion was founded 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	7,100	11,600
	Hokkai-do, Aomori-ken, Niigata-ken, Gifu-ken, Kyoto-fu, Hyogo-ken, Nara-ken	7,800	13,500
2	Fukushima-ken	8,500	17,000
	Miyagi-ken, Yamanashi-ken, Kagawa-ken, Oita-ken, Miyazaki-ken, Okinawa-ken	10,700	19,700
	Ehime-ken	12,000	22,400
	Osaka-fu	12,600	22,400
3	Aichi-ken, Mie-ken, Wakayama-ken	14,400	24,700
	Ibaraki-ken,	15,500	32,000
	Saitama-ken,	17,800	32,000
	Tokushima-ken, Kochi-ken	15,500	36,500
	Chiba-ken, Tokyo-to, Kanagawa-ken, Shizuoka-ken	25,000	38,900



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	2.80	3.70	4.60

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
→ 1.35 (premium per 1,000 yen insurance)
- Confirming the discount rate applicable: Building constructed in and after June 1981
→ 10%

$$\begin{array}{l} \text{Earthquake insurance premium} \\ \text{on residential building} \end{array} = \begin{array}{l} \text{Earthquake} \\ \text{amount insured} \end{array} \times \begin{array}{l} \text{Earthquake insurance} \\ \text{premium rate} \end{array} \times \begin{array}{l} \text{Discount rate} \\ (100\% - 10\%) \end{array} = 12,200 \text{ (yen)} \\ \text{(1,000 yen)} \qquad \qquad \qquad \underbrace{\qquad \qquad \qquad}_{1.22}$$

$$\begin{array}{l} \text{Earthquake insurance premium} \\ \text{on personal property} \end{array} = \begin{array}{l} \text{Earthquake} \\ \text{amount insured} \end{array} \times \begin{array}{l} \text{Earthquake insurance} \\ \text{premium rate} \end{array} \times \begin{array}{l} \text{Discount rate} \\ (100\% - 10\%) \end{array} = 6,100 \text{ (yen)} \\ \text{(1,000 yen)} \qquad \qquad \qquad \underbrace{\qquad \qquad \qquad}_{1.22}$$

* 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.

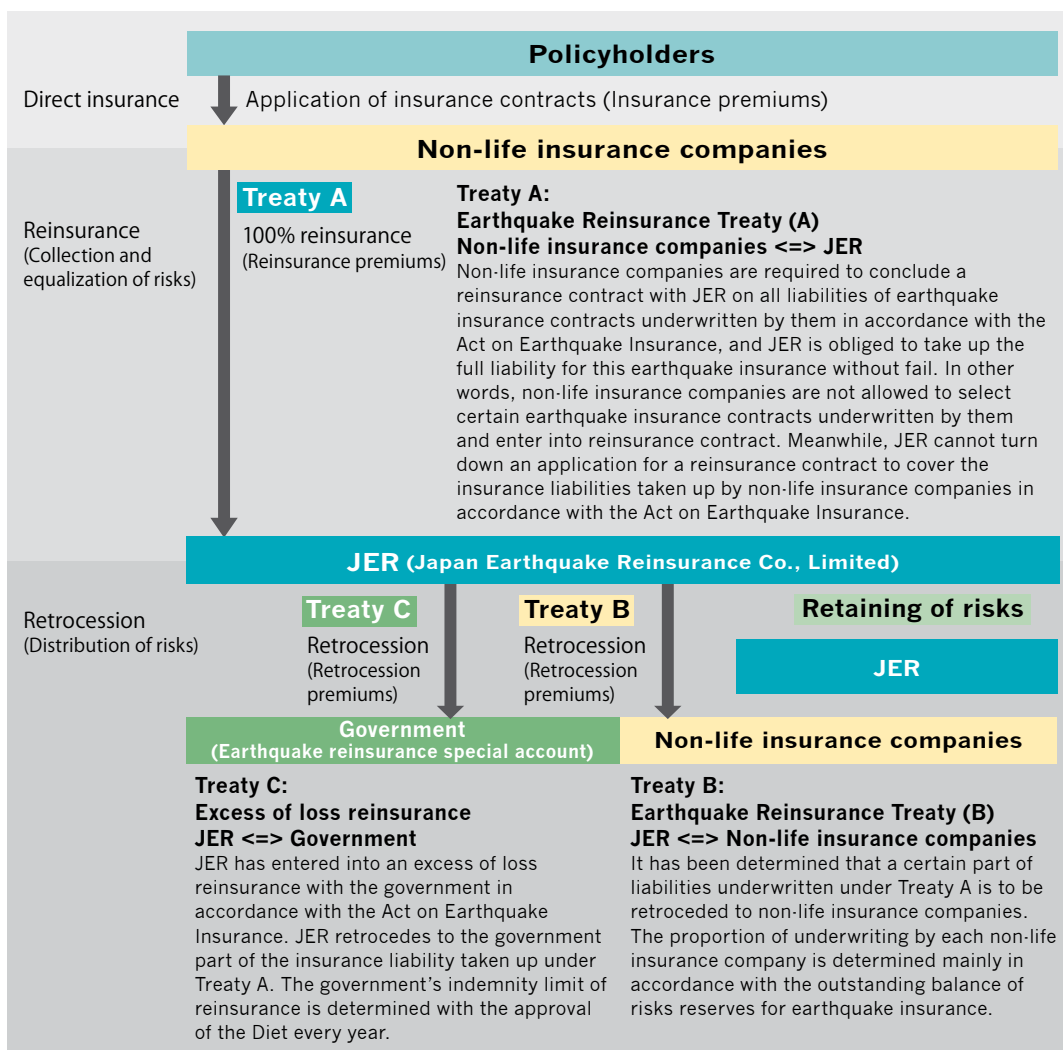
When a major earthquake occurs, a non-life insurance company must make a large amount of money ready so that it can pay a large number of insurance claims. To avoid problems in paying insurance claims, the government has set forth a ministerial ordinance that covers the payment of reinsurance claims 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.

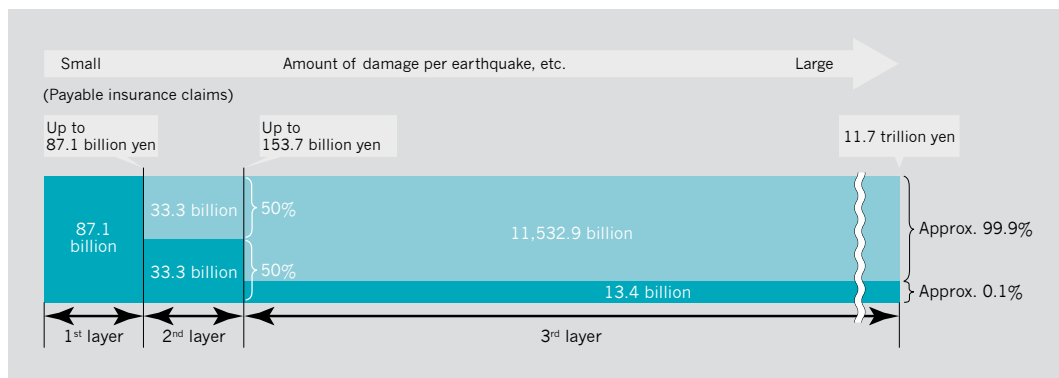
JER first reinsures earthquake insurance contracts that were underwritten by non-life insurance companies, and then divides the risks evenly. After excluding the risks held by JER, JER implements retrocession against the government and non-life insurance companies in accordance with the burden of risks 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 11.7 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, 2019)



LIABILITY LIMIT

JER and non-life insurance companies	133.8 billion yen
The government	11,566.2 billion yen

JER and non-life insurance companies pay insurance claims up to 87.1 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 87.1 billion yen, up to 153.7 billion yen (2nd layer). The government pays a majority of insurance claims (approximately 99.9%) for the portion exceeding 153.7 billion yen (3rd layer).

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				Total
	Portion up to 87.1 billion yen	Portion over 87.1 billion yen, and up to 153.7 billion yen	Portion over 153.7 billion yen, and up to 2,000 billion yen	
A person of burden				
JER and Non-life insurance companies	87.1	33.3	About 2.1	About 122.5
The government	—	33.3	About 1,844.2	About 1,877.5
Total	87.1	66.6	1,846.3	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 2018

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	203.0 billion yen
Non-life insurance companies	30.6 billion yen
The government	1,696.9 billion yen
Total	1,930.7 billion yen

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

2: Government reserves will be finalized when the settlement for fiscal 2018 is approved by the Diet.

STATISTICS

REINSURANCE CLAIMS PAID IN FISCAL 2018

Reinsurance claims paid in fiscal 2018 amounted to 156.5 billion yen, including earthquake reinsurance claims paid to cover the 2018 Northern Osaka Earthquake and the 2018 Hokkaido Eastern Iburi Earthquake. In terms of numbers, 192,623 claims were paid (on the basis of insurance policies). See below for claims paid for major earthquakes.

Earthquake (Region name)	Date of occurrence	Magnitude	No. of policies	Reinsurance claims paid (million yen)
1. The 2018 Northern Osaka	June 18, 2018	6.1	130,542	107,151
2. The 2018 Hokkaido Eastern Iburi	September 6, 2018	6.7	48,447	38,670
3. The 2016 Kumamoto	April 14, 2016	7.3	3,309	3,543
4. The 2011 off the Pacific coast of Tohoku	March 11, 2011	9.0	4,852	3,795
5. Shimane-ken Seibu	April 9, 2018	6.1	1,545	964
Other earthquakes	—	—	3,928	2,395
Total	—	—	192,623	156,521

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	26,446	9,051	34.2	Nearly 0%–6%
Tokyo metropolitan	18,724	6,496	34.7	About 70%
Nankai trough	44,671	14,636	32.8	70%–80%

Note 1: Number of households is prepared based on data of the Ministry of Internal Affairs and Communications (as of January 1, 2018).

2: JER prepared the number of policies, assuming that major prefectures were stricken, based on the preliminary figures as of the end of 2017 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 2019 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, 2019)

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	817,223	1,283,313
2. The 2016 Kumamoto	April 14, 2016	7.3	209,587	385,904
3. The 2018 Northern Osaka	June 18, 2018	6.1	130,542	107,151
4. Hyogo-ken Nanbu	January 17, 1995	7.3	65,427	78,346
5. The 2018 Hokkaido Eastern Iburi	September 6, 2018	6.7	48,447	38,670
6. Miyagi-ken-oki	April 7, 2011	7.2	31,015	32,402
7. Fukuoka-ken Seiho-oki	March 20, 2005	7.0	22,066	16,973
8. Geiyo	March 24, 2001	6.7	24,453	16,942
9. Niigata-ken Chuetsu	October 23, 2004	6.8	12,608	14,897
10. Niigata-ken Chuetsu-oki	July 16, 2007	6.8	7,873	8,251
11. Fukuoka-ken Seiho-oki	April 20, 2005	5.8	11,338	6,430
12. Tokachi-oki	September 26, 2003	8.0	10,553	5,990
13. Iwate-Miyagi Nairiku	June 14, 2008	7.2	8,276	5,545
14. Tottori-ken Chubu	October 21, 2016	6.6	6,872	5,382
15. Suruga-wan	August 11, 2009	6.5	9,532	5,181
16. Shizuoka-ken Tobu	March 15, 2011	6.4	5,435	4,733
17. Iwate-ken Engan Hokubu	July 24, 2008	6.8	7,756	3,973
18. Fukushima-ken Hamadori	April 11, 2011	7.0	2,377	3,681
19. Nagano-ken Chubu	June 30, 2011	5.4	2,988	3,335
20. Tottori-ken Seibu	October 6, 2000	7.3	4,079	2,869

Note 1: After the 2011 off the Pacific coast of Tohoku, in accordance with our reinsurance scheme at the time, the government paid 584,156 million yen and JER and non-life insurance companies paid 699,156 million yen.

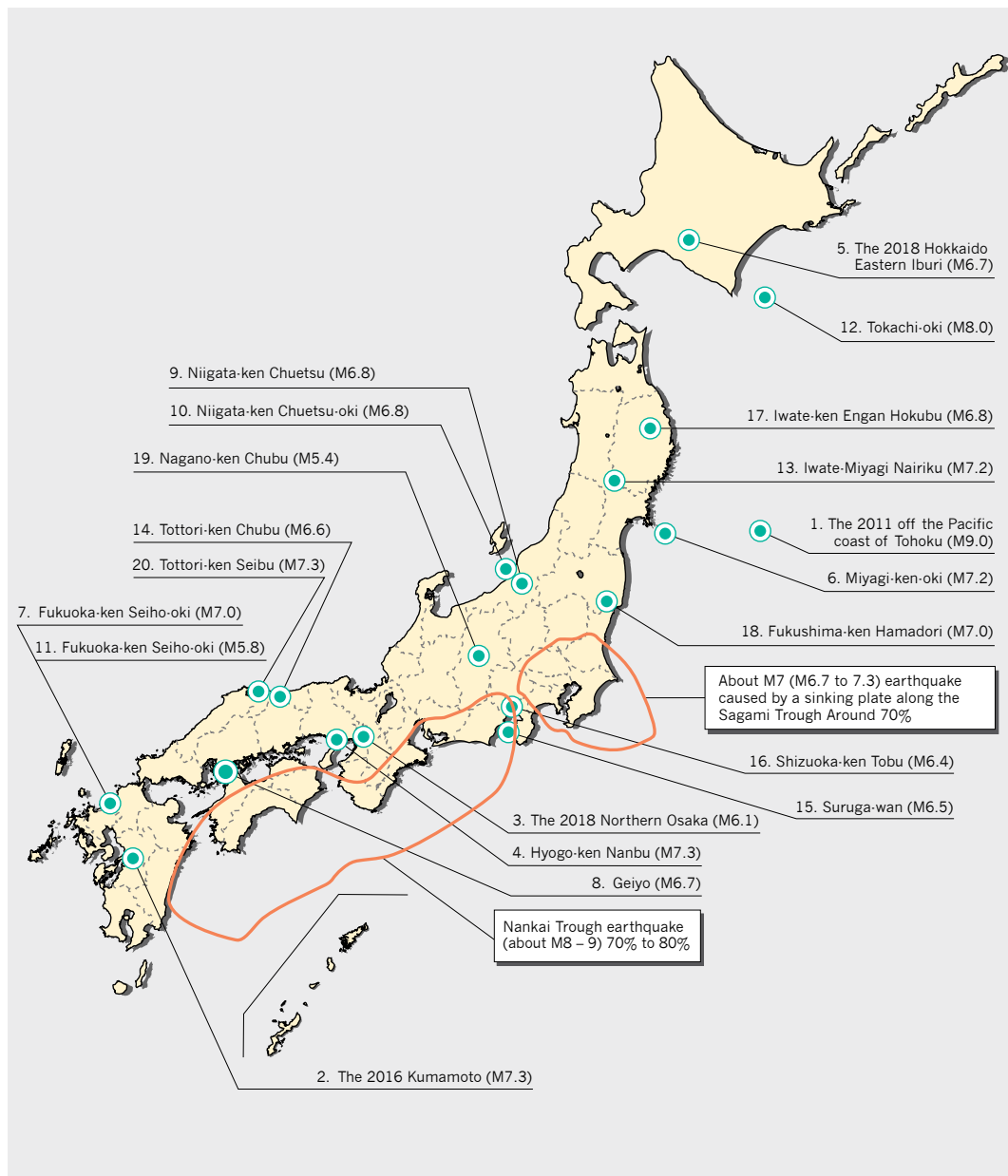
2: After the 2016 Kumamoto Earthquake, in accordance with our reinsurance scheme at the time, the government paid 135,302 million yen and JER and non-life insurance companies paid 250,602 million yen.

3: After the 2018 Northern Osaka Earthquake, in accordance with our reinsurance scheme at the time, the government paid 9,375 million yen and JER and non-life insurance companies paid 97,775 million yen.

4: 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 2018, mainly led by an increase in domestic demand such as consumer spending and capital expenditures, despite a temporary impact from earthquakes, heavy rain and other natural disasters. However, a slowdown in the growth of the world economy that had been the driving force behind the economic recovery in Japan began to exert an influence in the second half of the fiscal year under review, as was seen in a decline in exports and a weak note in industrial production.

Premiums written increased 10.2% compared to the previous fiscal year, reflecting an increase in the number of earthquake insurance contracts, reflecting heightened awareness of earthquake risks. Net claims paid and loss adjustment expenses increased sharply from the previous fiscal year, mainly consisting of payouts for the 2018 Northern Osaka and the 2018 Hokkaido Eastern Iburi Earthquake, which occurred in the fiscal year under review.

Looking at investment, investment income fell from the previous fiscal year, given tough conditions for investment assets under the on-going situation of extremely low interest rates, despite our focus primarily on asset liquidity and safety.

In fiscal 2018, which it positioned as the first year under the fifth medium term business plan, JER worked on 10 management items and generally achieved the targets set for those items. Under this medium-term business plan, we are working on building strong, sustainable earthquake reinsurance systems through early recovery of private-sector reserves.

Meanwhile, in investment, as initiatives for profitability improvement while guaranteeing asset liquidity and safety we will develop medium-term portfolio strategies and apply to investment plans in the next fiscal year and thereafter.

Summary of earthquake insurance results

① Net premiums written and net claims paid

Net premiums written, which is calculated by deducting assumed reinsurance premiums from premiums written, came to 118.6 billion yen (up 22.0% year on year).

In the meantime, net claims paid increased sharply to 124.2 billion yen (up 1,292.5% year on year), reflecting factors including the earthquake centered in the 2018 Northern Osaka and the 2018 Hokkaido Eastern Iburi Earthquake.

② Risk reserves and underwriting reserves

JER added a total of 43.4 billion yen, including net commissions written and held of 43.3 billion yen, which was calculated by deducting assumed reinsurance premiums, etc. from net premiums written, and net investment income of 0.1 billion yen, to its risk reserves.

Moreover, JER implemented a reversal of the risk reserves posted for the past fiscal year for the net claims paid of 124.2 billion yen stated above, damage research expenses of 9.8 billion yen, provision for outstanding claims of 9.8 billion yen and advertising and publicity expenses of 0.3 billion yen. As a result, risk reserves at the end of the fiscal year under review came to 203.0 billion yen (down 33.2% year on year).

Underwriting reserves at the end of the fiscal year under review amounted to 416.7 billion yen (down 15.9% 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 the balance of net premiums written of 3.0 billion yen 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 30.6 billion yen (down 35.8% year on year) after reversal of the risk reserves posted for the past fiscal year, amounting to 20.1 billion yen in total, for claims paid, investment loss and advertising and publicity expenses.

Outline of investment

In investment, JER manages assets with top priority placed on liquidity and safety followed by profitability, in accordance with its investment policy.

As a result, total assets amounted to 468.4 billion yen (down 14.7% year on year), due to insurance claims payouts, etc. arising from the earthquakes occurred during the fiscal year under review. Major items in JER's portfolio included cash and deposits of 211.8 billion yen and securities of 228.2 billion yen.

In terms of profit and loss, amid a continued severe environment for investment, interest and dividend income came to 1.1 billion yen and foreign exchange gain amounted to 1.1 billion yen. Investment income, including gains on sales of securities, was 2.2 billion yen. Meanwhile, derivatives expenses amounted to 1.8 billion yen, and investment expenses, including loss on sales of securities, came to 1.8 billion yen.

JER hedges foreign exchange risks in almost all its purchases of bonds denominated in foreign currencies so that foreign exchange hedging costs are the differences between foreign exchange gains (losses) and derivatives gains (losses).

Profit and loss for the fiscal year under review

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

INDICATORS SHOWING THE MAIN RESULTS OVER THE LAST FIVE FISCAL YEARS

Division	Fiscal Year				
	2014	2015	2016	2017	2018
Net premiums written	108,994	121,986	114,114	97,302	118,679
Percentage change over the previous term	18.2%	11.9%	(6.5%)	(14.7%)	22.0%
Net claims paid	9,563	5,589	220,905	8,924	124,276
Percentage change over the previous term	(36.3%)	(41.6%)	3,852.3%	(96.0%)	1,292.5%
Ordinary income	119,822	129,107	289,485	101,288	199,942
Percentage change over the previous term	14.4%	7.7%	124.2%	(65.0%)	97.4%
Ordinary expenses	119,818	129,107	289,487	101,290	199,940
Percentage change over the previous term	14.6%	7.8%	124.2%	(65.0%)	97.4%
Ordinary profit (loss)	3	0	(1)	(1)	1
Percentage change over the previous term	(98.2%)	(98.4%)	(3,537.5%)	-	-
Net income (loss)	3	(0)	1	(0)	1
Percentage change over the previous term	-	(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	1,543	1,542	1,542	1,540	1,543
Total assets	640,137	709,408	511,297	549,220	468,425
Underwriting reserves	556,727	627,345	456,745	495,634	416,700
Percentage change over the previous term	11.5%	12.7%	(27.2%)	8.5%	(15.9%)
Of the balance, risk reserves	417,056	464,584	278,846	303,954	203,074
Percentage change over the previous term	10.3%	11.4%	(40.0%)	9.0%	(33.2%)
Loans	-	-	-	-	-
Percentage change over the previous term	-	-	-	-	-
Securities	391,034	401,751	234,580	200,239	228,248
Percentage change over the previous term	(25.5%)	2.7%	(41.6%)	(14.6%)	14.0%
Non-consolidated solvency-margin ratio	354.5%	392.1%	299.1%	379.6%	297.6%
Dividend propensity	-	-	-	-	-
No. of employees	29	28	26	28	29

Note:

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

SUMMARY OF OPERATIONS

1 Indicators relating to insurance underwriting

1. Net premiums written

Division	Fiscal Year		
	2016	2017	2018
Premiums written	247,441	261,556	288,859
Return premiums	4,342	4,316	5,325
Assumed net premiums written (A)	243,099	257,239	283,534
Reinsurance premiums ceded (B)	128,984	159,937	164,855
Net premiums written (A - B)	114,114	97,302	118,679

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		
	2016	2017	2018
Domestic contract	100%	100%	100%

3. Net claims paid

Division	Fiscal Year		
	2016	2017	2018
Assumed net claims paid (A)	388,527	14,786	156,521
Reinsurance claims recovered (B)	167,622	5,861	32,245
Net claims paid (A - B)	220,905	8,924	124,276

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	2016	2017	2018
Net loss ratio		206.0%	11.4%	113.0%
Underwriting expenses		47,409	49,481	53,750
Insurance related operating, general and administrative expenses		734	1,054	1,075
Commissions and brokerage fees		46,675	48,426	52,675
Net expense ratio		41.5%	50.9%	45.3%
Combined ratio		247.5%	62.3%	158.3%

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	2016	2017	2018
Underwriting income		284,934	99,430	197,716
Underwriting expenses		284,200	98,375	196,641
Operating, general and administrative expenses		734	1,054	1,075
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	2016	2017	2018
No. of reinsurers that ceded insurance contracts		11	9	9
Rate of top five reinsurers' ceded insurance premiums		89.8%	90.4%	90.5%

Note:

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

9. Ratio of ceded insurance premiums by rating

Not applicable

10. Contractor dividend

Not applicable

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

Not applicable to earthquake insurance.

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

Not applicable to earthquake insurance.

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 investment, 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 2016		As of the end of fiscal 2017		As of the end of fiscal 2018	
		Amount	Percentage distribution (%)	Amount	Percentage distribution (%)	Amount	Percentage distribution (%)
Deposits		260,534	51.0	333,194	60.7	211,842	45.2
Call loans		1,040	0.2	90	0.0	141	0.0
Monetary receivables bought		-	-	-	-	9,999	2.1
Money trusts		-	-	-	-	-	-
Securities		234,580	45.9	200,239	36.5	228,248	48.7
Buildings		25	0.0	24	0.0	23	0.0
Total of investments assets		496,181	97.0	533,548	97.1	450,255	96.1
Total assets		511,297	100.0	549,220	100.0	468,425	100.0

4. Asset management yield (realized yield)

Division	Fiscal Year	2016			2017			2018		
		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		7	233,671	0.00	5	300,366	0.00	5	271,529	0.00
Call loans		0	1,471	0.00	0	388	0.00	0	125	0.00
Monetary receivables bought		3	20,157	0.02	-	-	-	0	7,628	0.00
Money trusts		-	-	-	-	-	-	-	-	-
Securities		1,419	294,061	0.48	1,216	215,283	0.57	1,167	217,013	0.54
Public and corporate bonds		662	251,126	0.26	556	179,425	0.31	491	185,171	0.27
Stocks		-	-	-	-	-	-	-	-	-
Foreign securities		757	42,934	1.76	659	35,857	1.84	676	31,842	2.12
Other securities		-	-	-	-	-	-	-	-	-
Loans		-	-	-	-	-	-	-	-	-
Buildings		-	27	-	-	25	-	-	24	-
Derivatives		3,329	-	-	929	-	-	(1,863)	-	-
Others		(3,791)	-	-	(1,404)	-	-	1,116	-	-
Total		968	549,390	0.18	747	516,064	0.14	426	496,322	0.09

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	2016		2017		2018	
		Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
Deposits		7	0.00	5	0.00	5	0.00
Call loans		0	0.00	0	0.00	0	0.00
Monetary receivables bought		3	0.02	-	-	0	0.00
Money trusts		-	-	-	-	-	-
Securities		1,283	0.44	1,176	0.55	1,101	0.51
Buildings		-	-	-	-	-	-
Total		1,294	0.24	1,181	0.23	1,107	0.22

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	2016			2017			2018		
		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		7	233,671	0.00	5	300,366	0.00	5	271,529	0.00
Call loans		0	1,471	0.00	0	388	0.00	0	125	0.00
Monetary receivables bought		3	20,157	0.02	-	-	-	0	7,628	0.00
Money trusts		-	-	-	-	-	-	-	-	-
Securities		212	297,783	0.07	(71)	217,797	(0.03)	1,656	218,239	0.76
Public and corporate bonds		(227)	254,512	(0.09)	(63)	181,922	(0.04)	489	187,047	0.26
Stocks		-	-	-	-	-	-	-	-	-
Foreign securities		439	43,270	1.01	(7)	35,874	(0.02)	1,166	31,192	3.74
Other securities		-	-	-	-	-	-	-	-	-
Loans		-	-	-	-	-	-	-	-	-
Buildings		-	27	-	-	25	-	-	24	-
Derivatives		3,329	-	-	929	-	-	(1,863)	-	-
Others		(3,791)	-	-	(1,404)	-	-	1,116	-	-
Total		(239)	553,111	(0.04)	(540)	518,578	(0.10)	914	497,548	0.18

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 2016		As of the end of fiscal 2017		As of the end of fiscal 2018	
		Amount	Percentage distribution (%)	Amount	Percentage distribution (%)	Amount	Percentage distribution (%)
Foreign currency denominated							
Foreign public and corporate bonds		14,910	56.4	24,361	70.0	28,903	85.5
Yen denominated							
Foreign public and corporate bonds		11,525	43.6	10,460	30.0	4,915	14.5
Total		26,435	100.0	34,822	100.0	33,818	100.0
Yield on foreign loans & investments							
Investment assets yield (income yield)			1.45%		1.88%		2.17%
Assets management yield (realized yield)			1.76%		1.84%		2.12%
Market-price based overall yield (for reference)			1.01%		(0.02%)		3.74%

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 2017	As of the end of fiscal 2018
Total amount of non-consolidated solvency-margin		306,691	203,899
Common stock, etc.		1,539	1,541
Price fluctuation reserves		1	1
Risk reserves		-	-
Catastrophe reserves		303,954	203,074
Reserves for ordinary bad debts		-	-
Unrealized gain/loss on available-for-sale securities / Deferred gain/loss on hedges		1,195	1,532
(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		-	2,250
Others		-	-
Total amount of non-consolidated risk $\sqrt{(R1 + R2)^2 + (R3 + R4)^2} + R5 + R6$		161,550	137,011
General underwriting risk (R1)		-	-
Underwriting risk in third-area insurance (R2)		-	-
(B) Anticipated rate of return risk (R3)		-	-
Investment risk (R4)		7,482	6,924
Management risk (R5)		3,167	2,686
Catastrophe risk (R6)		150,900	127,400
(C) Non-consolidated solvency-margin ratio $\frac{(A)}{[(B) \times 1 / 2]} \times 100$		379.6%	297.6%

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	2017	2018
		(As of March 31, 2018)	(As of March 31, 2019)
	Amount	Amount	
Cash and deposits	333,194	211,842	
Deposits	333,194	211,842	
Call loans	90	141	
Monetary receivables bought	-	9,999	
Securities	200,239	228,248	
Government bonds	62,581	52,578	
Municipal bonds	20,051	13,416	
Corporate bonds	82,784	128,435	
Foreign securities	34,822	33,818	
Tangible fixed assets	125	90	
Buildings	24	23	
Other tangible fixed assets	101	66	
Intangible fixed assets	261	209	
Software	259	208	
Other intangible fixed assets	1	1	
Other assets	15,309	17,892	
Reinsurance accounts receivable	14,234	17,408	
Accounts receivable	0	3	
Uncollected income	309	280	
Deposits	46	46	
Suspense payments	2	1	
Derivatives	715	152	
Total assets	549,220	468,425	

(LIABILITIES)

Item	(Yen in millions)		
	Fiscal Year	2017	2018
		(As of March 31, 2018)	(As of March 31, 2019)
	Amount	Amount	
Underwriting funds	497,407	428,289	
Outstanding claims	1,773	11,589	
Underwriting reserves	495,634	416,700	
Entrusted reserves	37,499	23,759	
Other liabilities	11,360	12,928	
Reinsurance accounts payable	11,180	11,903	
Income taxes payable	109	189	
Deposits payable	5	5	
Accrued amounts payable	61	666	
Derivatives	3	163	
Reserve for retirement benefits	154	152	
Reserve for directors' retirement benefits	9	13	
Reserve for bonus payments	21	23	
Reserves under the special law	1	1	
Reserve for price fluctuation	1	1	
Net unrealized gains on available-for-sale securities of earthquake insurance	1,225	1,711	
Deferred tax liabilities	0	0	
Total liabilities	547,680	446,881	

(NET ASSETS)

Item	(Yen in millions)		
	Fiscal Year	2017	2018
		(As of March 31, 2018)	(As of March 31, 2019)
	Amount	Amount	
Common stock	1,000	1,000	
Retained earnings	545	546	
Legal reserve of retained earnings	1	1	
Other legal reserve of retained earnings	544	545	
Special reserves	17	17	
Special price fluctuation reserves	39	39	
Retained earnings carried forward	487	489	
Treasury Stock	(5)	(5)	
Total shareholders' equity	1,539	1,541	
Net unrealized gains on available-for-sale securities	0	1	
Total valuation and translation adjustments	0	1	
Total net assets	1,540	1,543	
Total liabilities and net assets	549,220	468,425	

Notes for fiscal 2018

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, 2019.

(Yen in millions)

	Balance sheet amount	Fair value	Difference
(i) Cash and deposits	211,842	211,842	-
(ii) Call loans	141	141	-
(iii) Monetary receivables bought	9,999	9,999	-
(iv) Securities			
Available-for-sale securities	228,248	228,248	-
Total assets	450,232	450,232	-
(v) Derivatives* to which hedge accounting is not applied	(11)	(11)	-
Derivatives total	(11)	(11)	-

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

Note: Methods for calculating the fair values of financial instruments

- (i) Cash and deposits
Cash and deposits are settled in the short term and their fair values are based on their carrying values as their fair values and carrying values are similar.
- (ii) Call loans
Call loans are settled in the short term and their fair values are based on their carrying values as their fair values and carrying values are similar.
- (iii) Monetary receivables bought
Monetary receivables bought are settled in the short term and their fair values are based on their carrying values as their fair values and carrying values are similar.
- (iv) Securities
The fair values of securities are based on their market prices at term end, which are reference prices in the trading statistics of the Japan Securities Dealers Association or market prices obtained from outside vendors or brokers.
- (v) Derivatives
The fair values of derivatives are determined by prices offered by correspondent financial institutions.

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 147 million yen.
6. See below for a breakdown of outstanding claims.

(Yen in millions)	
Outstanding claims (before the deduction of outstanding reinsurance claims)	14,950
Outstanding reinsurance claims related to the above claims	3,361
Net outstanding claims	11,589

7. Total deferred tax assets amount to 533 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 426 million yen, a reserve for retirement benefits of 42 million yen, unpaid business taxes of 37 million yen and unpaid special local corporate tax of 15 million yen. Deferred tax liabilities resulted mainly from unrealized gains on securities of 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 776.01 yen. The basis for this calculation is that net assets are 1,543 million yen, net assets accrued from ordinary shares are 1,543 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	2017 (from April 1, 2017 to March 31, 2018)
	Amount	Amount
Ordinary income	101,288	199,942
Underwriting income	99,430	197,716
Net premiums written	97,302	118,679
Investment income on savings premiums	319	103
Reversal of outstanding claims	1,808	-
Reversal of policy reserve	-	78,933
Investment income	1,858	2,212
Interest and dividend income	1,181	1,107
Gains on sales of securities	63	80
Gains on derivatives	929	-
Foreign exchange gains	-	1,124
Other investment income	3	3
Transfer of investment income on savings premiums	(319)	(103)
Other ordinary income	0	13
Ordinary expenses	101,290	199,940
Underwriting expenses	98,375	196,641
Net claims paid	8,924	124,276
Loss adjustment expenses	2,135	9,874
Commissions and brokerage fees	48,426	52,675
Provision of outstanding claims	-	9,815
Provision of underwriting reserves	38,888	-
Investment expenses	1,429	1,890
Loss on sales of securities	22	14
Losses on derivatives	-	1,863
Foreign exchange losses	1,386	-
Other investment expenses	20	12
Operating, general and administrative expenses	1,413	1,409
Other ordinary expenses	71	-
Interest paid	71	-
Ordinary profit (loss)	(1)	1
Extraordinary income	1	-
Reversal of reserve for price fluctuation	1	-
Extraordinary losses	-	0
Provision of price fluctuation reserves	-	0
Net income (loss) before income taxes	(0)	1
Income taxes	0	0
Total income taxes	0	0
Net income (loss)	(0)	1

Notes for fiscal 2018

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

	(Yen in millions)
Premiums written:	283,534
Reinsurance premiums ceded:	164,855
Net premiums written:	118,679

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

	(Yen in millions)
Claims paid:	156,521
Reinsurance claims recovered:	32,245
Net claims paid:	124,276

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)	12,068
Provision of outstanding reinsurance claims related to the above claims	2,252
Net provision of outstanding claims	9,815

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

	(Yen in millions)
Deposits:	5
Call loans:	0
Monetary receivables bought:	0
Securities:	1,101
Total:	1,107

5. Paper profit/loss involved in the gains on derivatives is a loss of 11 million yen.

6. Net income per share is 0.79 yen.

The basis for this calculation is such that net income is 1 million yen, net income accrued from common stocks is 1 million yen and the term average number of common stocks amount to 1.988 million.

7. The legal effective tax rate at the end of the term is 28.00%, and the corporate tax burden after applying the tax effect is 15.52%. The difference is explained by the following breakdown: valuation reserve 4,906.97%, the amount of the write-off carried from publicity expenses related to risk reserves (4,952.16%).

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

3. Statements of cash flow

Item	(Yen in millions)	
	Fiscal Year	2017 (from April 1, 2017 to March 31, 2018)
	Amount	Amount
Cash flow from operating activities		
Net income before income taxes	(0)	1
Depreciation	115	115
Increase (decrease) in outstanding claims	(1,808)	9,815
Increase (decrease) in underwriting reserves	38,888	(78,933)
Increase (decrease) in entrusted reserves	1,396	(13,740)
Increase (decrease) in reserve for retirement benefits	2	(1)
Increase (decrease) in reserve for directors' retirement benefits	4	4
Increase (decrease) in reserve for bonus payments	(0)	1
Increase (decrease) in reserve for price fluctuation	(1)	0
Interest and dividend income	(1,181)	(1,107)
Losses (gains) on investment in securities	(40)	(66)
Foreign exchange losses (gains)	1,904	(1,110)
Decrease (increase) in other assets (other than investment and financial activities related)	244	(3,176)
Increase (decrease) in other liabilities (other than investment and financial activities related)	1,205	1,327
Others	(1,110)	803
Subtotal	39,620	(86,065)
Interest and dividends received	1,654	1,645
Income taxes paid	(0)	(0)
Net cash provided by operating activities	41,274	(84,419)
Cash flow from investing activities		
Net decrease (increase) in cash and deposits	-	(19,999)
Proceeds from sales and redemption of monetary receivables bought	-	9,999
Purchase of securities	(112,994)	(73,760)
Proceeds from sales and redemption of securities	143,662	46,907
Total investment assets activities	30,667	(36,852)
Total operating activities and investment assets activities	71,941	(121,272)
Acquisition of tangible fixed assets	(117)	-
Others	(114)	(28)
Net cash provided by investing activities	30,435	(36,880)
Cash flow in financing activities		
Effect of exchange rate changes on cash and cash equivalents	-	-
Net increase (decrease) in cash and cash equivalents	71,709	(121,300)
Cash and cash equivalents at the beginning of the year	247,574	319,284
Cash and cash equivalents at the end of the year	319,284	197,983

Notes for fiscal 2018

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, 2018)	(As of March 31, 2019)
Cash and deposits	333,194	211,842
Call loans	90	141
Monetary receivables bought	-	9,999
Securities	200,239	228,248
Deposits of a depository period over three months	(14,000)	(14,000)
Monetary receivables bought other than cash equivalents	-	(9,999)
Securities other than cash equivalent	(200,239)	(228,248)
Cash and cash equivalents	319,284	197,983

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 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

Fiscal 2018 (from April 1, 2018 to March 31, 2019)

(Yen in millions)

	Shareholder's equity							Valuation and translation adjustments:		Total net assets	
	Common stock	Retained earnings					Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities		Total valuation and translation adjustments
		Legal reserve of retained earnings	Other legal reserve of retained earnings		Retained earnings carried forward						
			Special reserves	Special price fluctuation reserves							
Balance at the beginning of the period	1,000	1	17	39	487	545	(5)	1,539	0	0	1,540
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	2
Balance at the end of the period	1,000	1	17	39	489	546	(5)	1,541	1	1	1,543

Notes for fiscal 2018

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 2017	Increase in fiscal 2018	Decrease in fiscal 2018	Balance as of the end of fiscal 2018
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		
	2016	2017	2018
Dividend per share	-	-	-
Net income (loss) per share	0.57 yen	(0.34 yen)	0.79 yen
Dividend propensity	-	-	-
Net assets per share	775.67 yen	774.54 yen	776.01 yen
Total assets per employee	19,665	19,615	16,152

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 2016	As of the end of fiscal 2017	As of the end of fiscal 2018
Deposits		260,534	333,194	211,842
Ordinary deposits		236,504	309,164	187,812
Time deposits		24,030	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 2016		As of the end of fiscal 2017		As of the end of fiscal 2018	
		Amount	Percentage distribution (%)	Amount	Percentage distribution (%)	Amount	Percentage distribution (%)
Government bonds		91,419	39.0	62,581	31.3	52,578	23.0
Municipal bonds		24,257	10.3	20,051	10.0	13,416	5.9
Corporate bonds		92,467	39.4	82,784	41.3	128,435	56.3
Stocks		-	-	-	-	-	-
Foreign securities		26,435	11.3	34,822	17.4	33,818	14.8
Other securities		-	-	-	-	-	-
Total		234,580	100.0	200,239	100.0	228,248	100.0

4. Yield on securities held

Division	Fiscal Year		
	2016	2017	2018
Investment assets yield (income yield)			
Public & corporate bonds	0.26	0.28	0.22
Stocks	-	-	-
Foreign securities	1.45	1.88	2.17
Other securities	-	-	-
Total	0.44	0.55	0.51
Assets management yield (realized yield)			
Public & corporate bonds	0.26	0.31	0.27
Stocks	-	-	-
Foreign securities	1.76	1.84	2.12
Other securities	-	-	-
Total	0.48	0.57	0.54
Market-price based overall yield (for reference)			
Public & corporate bonds	(0.09)	(0.04)	0.26
Stocks	-	-	-
Foreign securities	1.01	(0.02)	3.74
Other securities	-	-	-
Total	0.07	(0.03)	0.76

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 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

As of the end of fiscal 2018

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	8,919	29,706	4,749	-	-	9,204	52,578
Municipal bonds	3,975	6,139	2,500	330	202	267	13,416
Corporate bonds	37,575	57,020	22,250	2,261	6,095	3,231	128,435
Stocks	-	-	-	-	-	-	-
Foreign securities	6,276	26,137	1,405	-	-	-	33,818
Other securities	-	-	-	-	-	-	-
Total	56,747	119,003	30,905	2,591	6,297	12,702	228,248

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, 2019.

12. Tangible fixed assets by category

(Yen in millions)

Division	Year	As of the end of fiscal 2016	As of the end of fiscal 2017	As of the end of fiscal 2018
Land		-	-	-
for underwriting		-	-	-
for investment		-	-	-
Buildings		25	24	23
for underwriting		25	24	23
for investment		-	-	-
Construction in progress		-	-	-
for underwriting		-	-	-
for investment		-	-	-
Total of property		25	24	23
for underwriting		25	24	23
for investment		-	-	-
Leased assets		-	-	-
Other tangible fixed assets		17	101	66
Total		43	125	90

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 2016	As of the end of fiscal 2017	As of the end of fiscal 2018
Outstanding claims		3,581	1,773	11,589
Underwriting reserves		456,745	495,634	416,700
Risk reserves		278,846	303,954	203,074
Unearned premium reserves		177,899	191,679	213,625
Total		460,327	497,407	428,289

16. Level of underwriting reserves

There is no target contact.

17. Detailed listing of liability reserves

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

As of the end of fiscal 2018

(Yen in millions)

Division	Balance as of the end of fiscal 2017	Increase in fiscal 2018	Decrease in fiscal 2018	Balance as of the end of fiscal 2018
Reserve for ordinary bad debts	-	-	-	-
Reserve for individual bad debts	-	-	-	-
Reserve for specific foreign securities	-	-	-	-
Reserve for retirement benefits	154	15	17	152
Reserve for directors' retirement benefits	9	4	-	13
Reserve for bonus payments	21	23	21	23
Reserve for price fluctuation	1	0	-	1
Total	186	43	39	191

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	2016	2017	2018
Government bonds		2	63	80
Foreign securities		144	–	–
Total		147	63	80

2. Losses on sales of securities by category

(Yen in millions)				
Division	Fiscal Year	2016	2017	2018
Government bonds		–	8	1
Foreign securities		10	13	13
Total		10	22	14

3. Losses on valuation of securities

Not applicable

4. Gains on disposal of fixed assets

Not applicable

5. Losses on disposal of fixed assets

Not applicable

6. Business expenses (inclusive of loss adjustment)

(Yen in millions)				
Division	Fiscal Year	2016	2017	2018
Personnel expenses		3,311	651	2,496
Non personnel expenses		11,914	2,633	8,463
Taxes		310	264	323
Commissions and brokerage fees		46,675	48,426	52,675
Total		62,211	51,976	63,958

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 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

As of the end of fiscal 2018

(Yen in millions)					
Type of asset	Acquisition cost	Depreciation in fiscal 2018	Aggregated depreciations	Balance as the end of fiscal 2018	Rate of aggregated depreciations %
Tangible fixed assets					
Buildings	85	1	62	23	72.9
for underwriting	85	1	62	23	72.9
for investment	–	–	–	–	–
Other tangible fixed assets	151	34	85	66	56.1
Total	237	35	147	90	62.1
Intangible fixed assets					
Software	424	79	216	208	51.0
Other intangible fixed assets	1	–	–	1	–
Total	426	79	216	209	50.8
Grand total	664	115	364	299	54.9

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 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)

As of the end of fiscal 2018

(Yen in millions)

Division	Type	Acquisition cost	Book value	Difference
Securities whose carrying amount exceeds their cost	Public & corporate bonds	112,434	114,323	1,888
	Stocks	-	-	-
	Foreign securities	11,713	11,794	80
	Others	-	-	-
	Subtotal	124,148	126,117	1,969
Securities whose carrying amount does not exceed their cost	Public & corporate bonds	80,120	80,106	(14)
	Stocks	-	-	-
	Foreign securities	22,397	22,024	(372)
	Others	-	-	-
	Subtotal	102,517	102,130	(387)
Total		226,666	228,248	1,582

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

(Yen in millions)

Type	Fiscal 2017			Fiscal 2018		
	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	26,029	63	8	15,044	80	1
Stocks	-	-	-	-	-	-
Foreign securities	2,322	-	13	603	-	13
Others	-	-	-	-	-	-
Total	28,352	63	22	15,647	80	14

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 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

As of the end of fiscal 2018

(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	28,292	-	(11)	(11)
Euro	623	-	(0)	(0)
Total			(11)	(11)

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, 2019)

Established:	May 30, 1966
Capital:	1 billion yen
Total assets:	468.4 billion yen
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Japan Earthquake Reinsurance