

55<sup>th</sup>  
YEARS  
Anniversary

2021

# Annual Report

Introduction to Earthquake Reinsurance in Japan





## **Japan Earthquake Reinsurance**

### **Management philosophy**

**JER will aim to be a respected company that contributes to the sustainable development of a prosperous and safe society through the appropriate management of the earthquake insurance system.**

### **Management policy**

**Based on our initiative and spirit of challenge,**

**We will establish a fair and highly transparent management system.**

**We will also respond promptly and decisively to changes in the social environment.**

**We will prepare the reinsurance payment system to enable prompt and proper actions after a large earthquake.**

**We focus on liquidity and safety in asset management.**

## Contents

|    |   |
|----|---|
| 1  | <b>Message from the President</b>             |
| 2  | <b>Japan Earthquake Reinsurance Co., Ltd.</b> |
| 5  | <b>Topics</b>                                 |
| 6  | <b>Earthquake Insurance in Japan</b>          |
| 14 | <b>Reinsurance of Earthquake Insurance</b>    |
| 18 | <b>Statistics</b>                             |
| 21 | <b>Financial Section</b>                      |
| 28 | <b>Corporate Data</b>                         |

## MESSAGE FROM THE PRESIDENT



Chairman: Kazuhiko Ishihara      President: Shoji Ito

I would like to express my sincerest gratitude to all our stakeholders for their continued support.

We also wish to extend our deepest sympathies to the victims of disasters, including the earthquakes off the coast of Fukushima Prefecture and Miyagi Prefecture.

Fiscal 2020 will be remembered for the COVID-19 pandemic which has changed everyone's lives. Even in this challenging situation we were able to continue our key duties such as reinsurance payouts in a hybrid working style.

55 years have passed since the earthquake insurance system was established, Japan Earthquake Reinsurance Co., Ltd. ("JER"), the only reinsurance company in Japan specializing in household earthquake insurance, has held to its management philosophy and management policy, and continue to work to realize them.

JER has been promptly and reliably processing reinsurance payouts, its key mission, in the aftermath of disasters such as the 2011 Great East Japan Earthquake and the 2016 Kumamoto earthquakes.

Japan's earthquake reinsurance scheme is unique in the world. It was established as a collaboration between the Japanese government, private non-life insurance companies and JER.

We began our 6th Medium-Term Management Plan in FY2021.

The medium-term management plan includes four strategies (the earthquake insurance system, the asset management system, the emergency response system, and the system for preparing for disasters) based on sophisticated management and the promotion of SDGs management.

We also work to execute human resource strategies and digitally transform (DX).

In addition to heralding our plan, JER adopted their medium- to long-term corporate vision, **"Moving into the next stage of security with the strength of an earthquake insurance specialist."** This plan lays out our first steps toward even more rapid progress over the next three years or so to achieve our vision.

I am committed to continuing our efforts to execute our duties with the support of all of our employees. We aim to be a company that earns the respect of our stakeholders.

July 2021

Shoji Ito  
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.

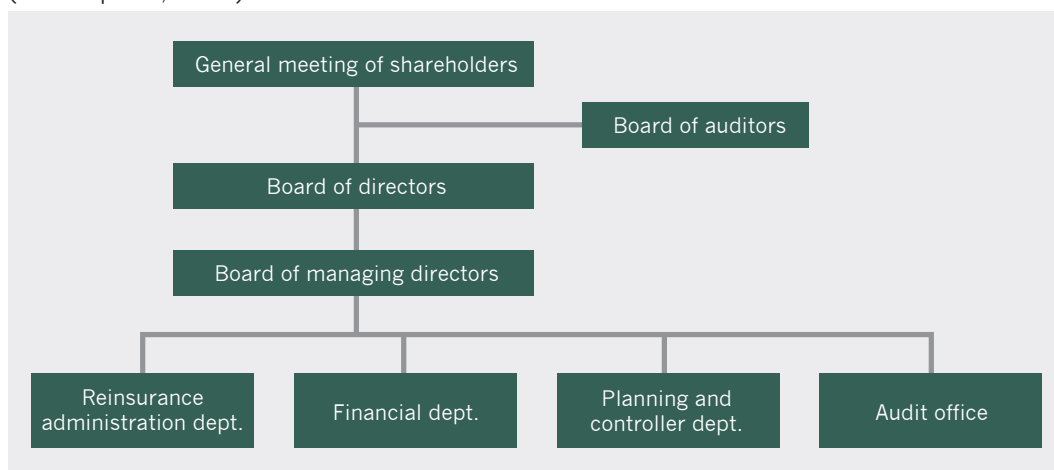
Earthquake insurance on dwelling risks depends on this reinsurance system (which is a safety net, as it were), in which the government, non-life insurance companies and JER participate to ensure that insurance claims can be paid to policyholders without fail.

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.

## ORGANIZATION

(As of April 1, 2021)



## SHAREHOLDERS

(As of March 31, 2021)

| Shareholder                                     | No. of shares owned<br>(1,000 shares) | Percentage of shares<br>owned (%) |
|---|---------------------------------------|-----------------------------------|
| Tokio Marine & Nichido Fire Insurance Co., Ltd. | 537                                   | 26.9                              |
| Sompo Japan 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, 2021)

| Post  | Name              |
|---|-------------------|
| Chairman (representative director)          | Kazuhiko Ishihara |
| President (representative director)         | Shoji Ito         |
| Managing director (representative director) | Motomi Ikeda      |
| Managing director (representative director) | Hiroyuki Hata     |
| Corporate auditor                           | Tsuyoshi Suzuki   |



## MANAGEMENT INFORMATION

JER has prepared its 6th Medium-Term Management Plan spanning the three years starting in 2021.

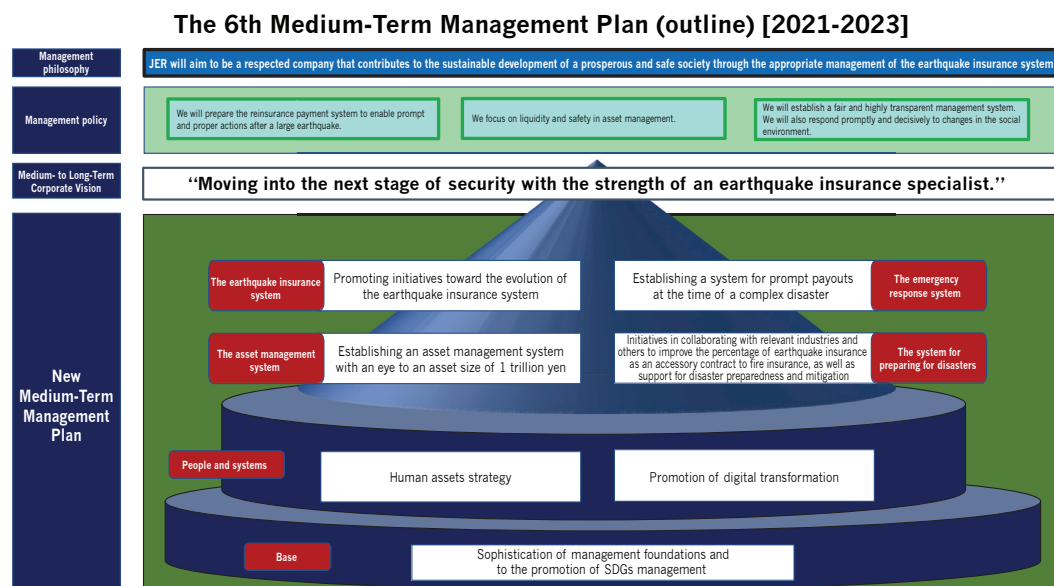
In addition to announcing its plan, JER adopted its medium- to long-term corporate vision, “Moving into the next stage of security with the strength of an earthquake insurance specialist.” This plan lays out its first steps toward even more rapid progress over the next three years or so to achieve its vision.

[Medium- to long-term corporate vision]

### “MOVING INTO THE NEXT STAGE OF SECURITY WITH THE STRENGTH OF AN EARTHQUAKE INSURANCE SPECIALIST.”

Under the 6th Medium-Term Management Plan, JER aims to build on its sophisticated management and contribute to the promotion of SDGs management by pursuing a human assets strategy and digital transformation (DX). Specifically, it will focus on the following four strategies:

- (i) Promote initiatives toward an evolution of the earthquake insurance system (the earthquake insurance system)
- (ii) Establish an asset management system with an eye to an asset size of 1 trillion yen (the asset management system)
- (iii) Establish a system for prompt payouts at the time of a complex disaster (the emergency response system)
- (iv) Pursue initiatives in collaboration with relevant industries and others toward improving the percentage of earthquake insurance as an accessory contract to fire insurance, as well as support for disaster preparedness and mitigation (the system for preparing for disasters)



## THE EARTHQUAKE INSURANCE SYSTEM AND JER'S 55TH ANNIVERSARY

On June 1, 2021, JER celebrated its 55th anniversary.

The establishment of an earthquake insurance was planned in response to the Niigata Earthquake that occurred in 1964. The Act on Earthquake Insurance was passed and came into force on May 18, 1966, followed by the establishment of the earthquake reinsurance scheme under which the government acts as the underwriter of reinsurance based on public-private sector cooperation.

During JER's history of handling earthquake insurance over the last 55 years, Japan has been hit by many earthquakes and volcanic eruptions, including the 1978 earthquakes off the coast of Miyagi Prefecture, the 1991 eruption of Mt Unzen's Fugendake, the 1995 Great Hanshin-Awaji Earthquake, the 2000 eruptions of Mt Usu and Miyakejima and the 2011 Great East Japan Earthquake.

In 2016, when JER celebrated its 50th anniversary, the Kumamoto earthquakes occurred. Since then, there have been a series of natural disasters around the nation, such as the northern Osaka earthquakes and the Hokkaido Eastern Iburi earthquakes.

Moreover, we are facing in recent years intensifying windstorms and floods due to climate change, as well as the COVID-19 pandemic since 2020. Amid these circumstances, earthquakes off the coast of Fukushima Prefecture occurred in February 2021, mainly affecting the Tohoku District. As such, there have been complex disaster events comprising COVID-19, windstorms, floods and earthquakes.

In this environment, JER will strive to continue to disseminate earthquake insurance and enhance the earthquake insurance system that ensures prompt and accurate reinsurance payouts, to fulfill its mission of helping people in Japan.

<Major earthquakes in recent years>

- 2016 Kumamoto earthquakes
- 2018 earthquakes centered in northern Osaka
- 2018 Hokkaido Eastern Iburi earthquakes
- 2021 earthquakes centered on Fukushima Prefecture's offshore area
- 2021 earthquakes centered on Miyagi Prefecture's offshore area

<Trends in earthquake insurance in recent years>

- Revision of earthquake insurance premium rate and review of product content
  - Revision of earthquake insurance premium rate on January 1, 2017 and creation of four damage categories
  - Revision of earthquake insurance premium rate on January 1, 2019
  - Revision of earthquake insurance premium rate on January 1, 2021
- Revision of upper limit for total amount of insurance claims (revised in April 2021)

The upper limit for total amount of insurance claims for one earthquake, etc. was increased from 11,700 billion yen to 12,000 billion yen. The apportionment of the burden between the public and private sectors are 11,775.1 billion yen for the government and 224.9 billion yen for the private insurance companies.

- Regarding measures to recover the balance of the private sector policy reserve, the method of allocation of insurance premiums was temporarily changed in the government budget for fiscal 2020 as a measure to recover the balance of the private sector policy reserve, which had decreased due to earthquake disasters in recent years, with an eye to steady management of the earthquake insurance system, under which the government and private insurance companies are co-insurers.



# 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,<br>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,<br>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>

| Degree of loss  | Residential building   |  | Personal property   |
|-----------------|--|--|---|
|                 | Amount of loss of major structural parts                                   | Area of floor burnt down or washed away (partial loss applies when the residential building is flooded above floor level)  | Degree of loss of or damage to the personal property                    |
| Total loss      | 50% or more of the current price of the residential building               | 70% or more of the total floor area of the residential building  | 80% or more of the current price of the personal property               |
| 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>

| Degree of loss | Residential building   |  | Personal property   |
|----------------|--|--|---|
|                | Amount of loss of major structural parts                                   | Area of floor burnt down or washed away (partial loss applies when the residential building is flooded above floor level)  | Degree of loss of or damage to the personal property                    |
| Total loss     | 50% or more of the current price of the residential building               | 70% or more of the total floor area of the residential building  | 80% or more of the current price of the personal property               |
| Half loss      | From 20% to less than 50% of the current price of the residential building | From 20% to less than 70% of the total floor area of the residential building  | From 30% to less than 80% of the current price of the personal property |
| Partial loss   | From 3% to less than 20% of the current price of the residential building  | The residential building was damaged but 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 12,000 billion yen as revised in April 1, 2021 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.

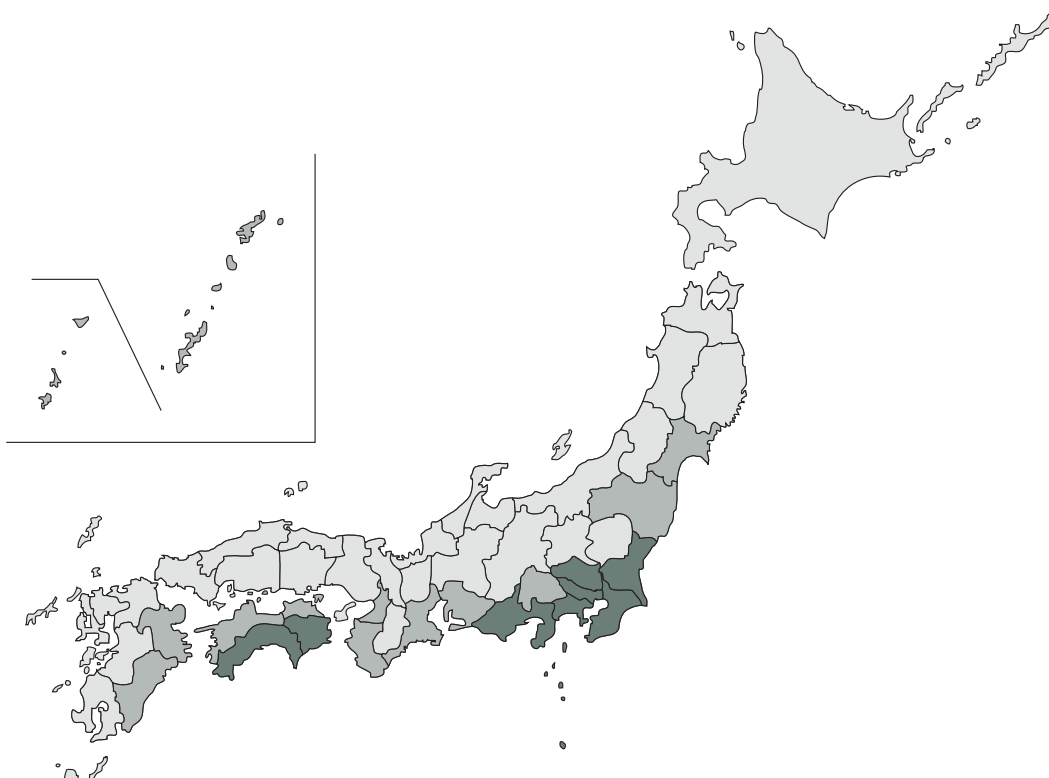
\*\*\* *The Headquarters for Earthquake Research Promotion*

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                       | Hokkai-do, Aomori-ken, Iwate-ken, Akita-ken, Yamagata-ken, Tochigi-ken, Gunma-ken, Niigata-ken, Toyama-ken, Ishikawa-ken, Fukui-ken, Nagano-ken, Gifu-ken, Shiga-ken, Kyoto-fu, Hyogo-ken, Nara-ken, Tottori-ken, Shimane-ken, Okayama-ken, Hiroshima-ken, Yamaguchi-ken, Fukuoka-ken, Saga-ken, Nagasaki-ken, Kumamoto-ken, Kagoshima-ken | 7,400      | 12,300 |
| 2                       | Fukushima-ken  | 9,700      | 19,500 |
|                         | Miyagi-ken, Yamanashi-ken, Aichi-ken, Mie-ken, Osaka-fu, Wakayama-ken, Kagawa-ken, Ehime-ken, Oita-ken, Miyazaki-ken, Okinawa-ken  | 11,800     | 21,200 |
| 3                       | Ibaraki-ken  | 17,700     | 36,600 |
|                         | Saitama-ken  | 20,400     | 36,600 |
|                         | Tokushima-ken, Kochi-ken   | 17,700     | 41,800 |
|                         | Chiba-ken, Tokyo-to, Kanagawa-ken, Shizuoka-ken  | 27,500     | 42,200 |





## DISCOUNT RATE

Either discount rate will apply to the foregoing basic premiums rate when the building and personal property come under any of the following:

- Discounts cannot be claimed more than once.

### (a) Seismic isolated building\* discount

When the building is a seismic isolated building constructed in accordance with related laws and accommodated personal property

|               |     |
|---------------|-----|
| Discount rate | 50% |
|---------------|-----|

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

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

| Earthquake-resistance class | 1   | 2   | 3   |
|-----------------------------|-----|-----|-----|
| Discount rate               | 10% | 30% | 50% |

### (c) Earthquake-resistance diagnosis discount

When the building was assessed as having an earthquake-resistance capacity\*\*\* equivalent to that stipulated by related laws as a result of an earthquake-resistance diagnosis or an earthquake-resistance refurbishment, and accommodated personal property

|               |     |
|---------------|-----|
| Discount rate | 10% |
|---------------|-----|

### (d) Building age discount rate

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

|               |     |
|---------------|-----|
| Discount rate | 10% |
|---------------|-----|

\* *Seismic isolated building*

A seismic isolated building is a building that is assessed to be a seismic isolated building in accordance with the related indicators in the Japanese Housing Performance Designation Standards under the Housing Quality Guarantee Law.

\*\* *Earthquake-resistance class*

The earthquake-resistance class of a residential building is an indicator of earthquake resistance as stipulated in the Japanese Housing Performance Designation Standards based on the Housing Quality Guarantee Law. It is also used to evaluate a building for earthquake resistance as provided for in the assessment guidelines for earthquake-resistance diagnosis based on the earthquake-resistance class (as to the body of the building) established by the Ministry of Land, Infrastructure and Transport. A description of the classes is as follows.

#### *Earthquake-Resistance Class 3*

A class suggesting that the building will not topple or collapse against a force that is 1.5 times stronger than the force of an earthquake (as provided for in Paragraph 3, Article 88, Enforcement Order of the Construction Standard Act) that occurs very rarely (once every some hundred years)

#### *Earthquake-Resistance Class 2*

Class suggesting that the building will not topple or collapse against a force 1.25 times stronger than the force of an earthquake that occurs very rarely

#### *Earthquake-Resistance Class 1*

Class suggesting that the building will not topple or collapse against that force of earthquake that occurs very rarely

\*\*\* *Earthquake-resistance capacity*

Earthquake-resistance capacity is a seismic capacity that conforms to the current earthquake-resistance standards set out in the Building Standards Law.

## PREMIUM RATE OF A LONG-TERM CONTRACT

Premium rate of a long-term contract (a two-to-five year contract with special conditions for premiums) is calculated as follows:

| Contract period | 2 years | 3 years | 4 years | 5 years |
|-----------------|---------|---------|---------|---------|
| Coefficient     | 1.90    | 2.85    | 3.75    | 4.65    |

### An example of insurance premiums calculated

A non wooden residential building constructed in January 2000 in Saitama-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: Saitama-ken, non wooden  
→ 2.04 (premium per 1,000 yen insurance)
- Confirming the discount rate applicable: Building constructed in and after June 1981  
→ 10%

$$\begin{array}{l} \text{Earthquake insurance premium} \\ \text{on residential building} \end{array} = \begin{array}{l} \text{Earthquake} \\ \text{amount insured} \end{array} \times \begin{array}{l} \text{Earthquake insurance} \\ \text{premium rate} \end{array} \times \begin{array}{l} \text{Discount rate} \\ (100\% - 10\%) \end{array} = 18,400 \text{ (yen)} \\ \begin{array}{l} 10,000 \\ (1,000 \text{ yen}) \end{array} \times \underbrace{2.04 \times (100\% - 10\%)}_{1.84} \end{array}$$

$$\begin{array}{l} \text{Earthquake insurance premium} \\ \text{on personal property} \end{array} = \begin{array}{l} \text{Earthquake} \\ \text{amount insured} \end{array} \times \begin{array}{l} \text{Earthquake insurance} \\ \text{premium rate} \end{array} \times \begin{array}{l} \text{Discount rate} \\ (100\% - 10\%) \end{array} = 9,200 \text{ (yen)} \\ \begin{array}{l} 5,000 \\ (1,000 \text{ yen}) \end{array} \times \underbrace{2.04 \times (100\% - 10\%)}_{1.84} \end{array}$$

\* Proportion Insured

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

## INCOME TAX CREDIT SYSTEM FOR EARTHQUAKE INSURANCE

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



# REINSURANCE OF EARTHQUAKE INSURANCE

## MECHANISM OF REINSURANCE

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

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

## MECHANISM OF PAYMENT OF INSURANCE CLAIMS

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

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

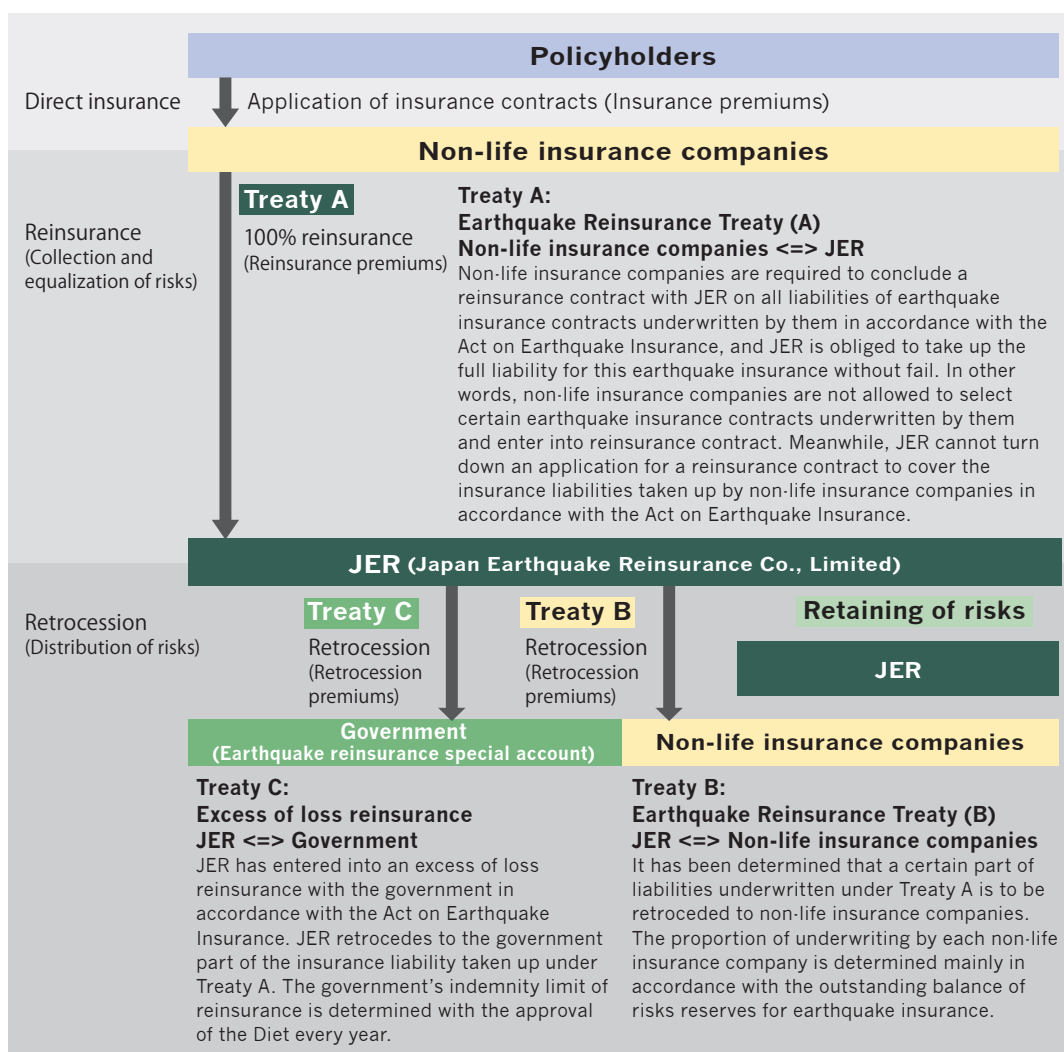
This means that the amount of reinsurance claim paid by JER is the same as the amount of the insurance claim paid to the policyholder by the non-life insurance company.

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

## FLOWCHART OF REINSURANCE

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

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

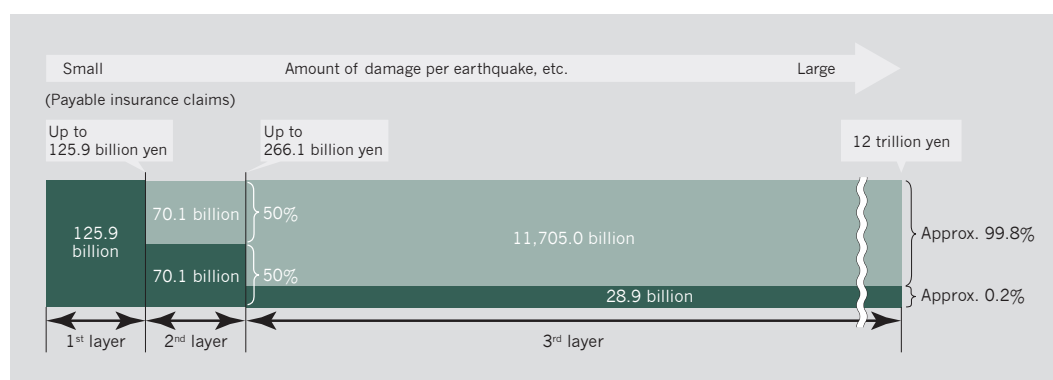




## INSURANCE LIABILITIES HELD BY JER, NON-LIFE INSURANCE COMPANIES AND THE GOVERNMENT

The limit of the total amount of insurance claims to be paid per earthquake, etc. is set in advance. This system is designed so that, even in the event of an earthquake as devastating as the Great Kanto Earthquake, insurance claims can be paid without problems. The current limit of total amount of insurance claims to be paid is set at 12.0 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, 2021)



### LIABILITY LIMIT

|                                      |                      |
|--------------------------------------|----------------------|
| JER and non-life insurance companies | 224.9 billion yen    |
| The government                       | 11,775.1 billion yen |

JER and non-life insurance companies pay insurance claims up to 125.9 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 125.9 billion yen, up to 266.1 billion yen (2nd layer). The government pays a majority of insurance claims (approximately 99.8%) for the portion exceeding 266.1 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                          | A person of burden              |   |   | Total         |
|--------------------------------------|---------------------------------|---|---|---------------|
|                                      | Portion up to 125.9 billion yen | Portion over 125.9 billion yen, and up to 266.1 billion yen | Portion over 266.1 billion yen, and up to 2,000 billion yen |               |
| JER and Non-life insurance companies | 125.9                           | 70.1  | About 4.3   | About 200.3   |
| The government                       | —                               | 70.1  | About 1,729.6   | About 1,799.7 |
| Total                                | 125.9                           | 140.2   | 1,733.9   | 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 2020

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                          | 239.8 billion yen   |
| Non-life insurance companies | 21.0 billion yen    |
| The government               | 1,990.9 billion yen |
| Total                        | 2,251.7 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.

Note 2: Government reserves will be finalized when the settlement for fiscal 2020 is approved by the Diet.

# STATISTICS

## REINSURANCE CLAIMS PAID IN FISCAL 2020

Reinsurance claims paid in fiscal 2020 amounted to 14.1 billion yen, including reinsurance claims paid to cover the earthquakes centered in northern Osaka and the 2018 Hokkaido Eastern Iburi earthquakes. In terms of numbers, 21,332 claims were paid (on the basis of insurance policies). See below for claims paid for major earthquakes, etc.

| Earthquake<br>(Region name)                                       | Date of occurrence | Magnitude | No. of<br>policies | Reinsurance<br>claims paid<br>(million yen) |
|---|--------------------|-----------|--------------------|---|
| 1. The 2018 Northern Osaka  | June 18, 2018      | 6.1       | 6,740              | 4,399                                       |
| 2. The 2018 Hokkaido Eastern Iburi                                | September 6, 2018  | 6.7       | 3,867              | 2,286                                       |
| 3. The 2011 off the Pacific coast of Tohoku                       | March 11, 2011     | 9.0       | 2,844              | 1,950                                       |
| 4. The 2016 Kumamoto  | April 14, 2016     | 7.3       | 1,687              | 1,502                                       |
| 5. Earthquakes centered in Yamagata<br>Prefecture's offshore area | June 18, 2019      | 6.7       | 838                | 506   |
| Other earthquakes   | —                  | —         | 5,356              | 3,467                                       |
| Total   | —                  | —         | 21,332             | 14,114                                      |

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

| Earthquake<br>(Region name) | No. of<br>households (A)<br>(1,000<br>households) | No. of<br>policies (B)<br>(1,000 policies) | Percentage of<br>households with<br>insurance (B/A)<br>(%) | Probability that an<br>earthquake could occur<br>within the next 30 years |
|-----------------------------|---|--|--|---|
| Great Kanto                 | 22,880  | 7,914                                      | 34.6   | Nearly 0%–6%  |
| Tokyo metropolitan          | 19,221  | 6,803                                      | 35.4   | About 70%   |
| Nankai trough               | 47,695  | 16,405                                     | 34.4   | 70%–80%   |

Note 1: Number of households is prepared based on data of the Ministry of Internal Affairs and Communications (as of January 1, 2020).

2: JER prepared the number of policies, assuming that major prefectures were stricken, based on the preliminary figures as of the end of 2019 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 2020 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, 2021)

| Earthquake<br>(Region name)                 | Date of occurrence | Magnitude | No. of policies | Reinsurance claims<br>paid (million yen) |
|---|--------------------|-----------|-----------------|--|
| 1. The 2011 off the Pacific coast of Tohoku | March 11, 2011     | 9.0       | 824,049         | 1,288,103                                |
| 2. The 2016 Kumamoto                        | April 14, 2016     | 7.3       | 214,003         | 389,811                                  |
| 3. The 2018 Northern Osaka                  | June 18, 2018      | 6.1       | 152,404         | 120,616                                  |
| 4. Hyogo-ken Nanbu                          | January 17, 1995   | 7.3       | 65,427          | 78,346                                   |
| 5. The 2018 Hokkaido Eastern Iburi          | September 6, 2018  | 6.7       | 70,360          | 51,730                                   |
| 6. Miyagi-ken-oki                           | April 7, 2011      | 7.2       | 31,019          | 32,414                                   |
| 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       | 12,609          | 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. Tottori-ken Chubu                       | October 21, 2016   | 6.6       | 7,210           | 5,583                                    |
| 14. Iwate-Miyagi Nairiku                    | June 14, 2008      | 7.2       | 8,276           | 5,545                                    |
| 15. Suruga-wan                              | August 11, 2009    | 6.5       | 9,549           | 5,192                                    |
| 16. Shizuoka-ken Tobu                       | March 15, 2011     | 6.4       | 5,464           | 4,755                                    |
| 17. Iwate-ken Engan Hokubu                  | July 24, 2008      | 6.8       | 7,756           | 3,973                                    |
| 18. Fukushima-ken Hamadori                  | April 11, 2011     | 7.0       | 2,386           | 3,685                                    |
| 19. Central Eastern Part of Iburi           | February 21, 2019  | 5.8       | 4,908           | 3,508                                    |
| 20. Nagano-ken Chubu                        | June 30, 2011      | 5.4       | 2,996           | 3,339                                    |

Note 1: After the 2011 off the Pacific coast of Tohoku, in accordance with our reinsurance scheme at the time, the government paid 586,551 million yen and JER and non-life insurance companies paid 701,551 million yen.

2: After the 2016 Kumamoto Earthquake, in accordance with our reinsurance scheme at the time, the government paid 137,255 million yen and JER and non-life insurance companies paid 252,555 million yen.

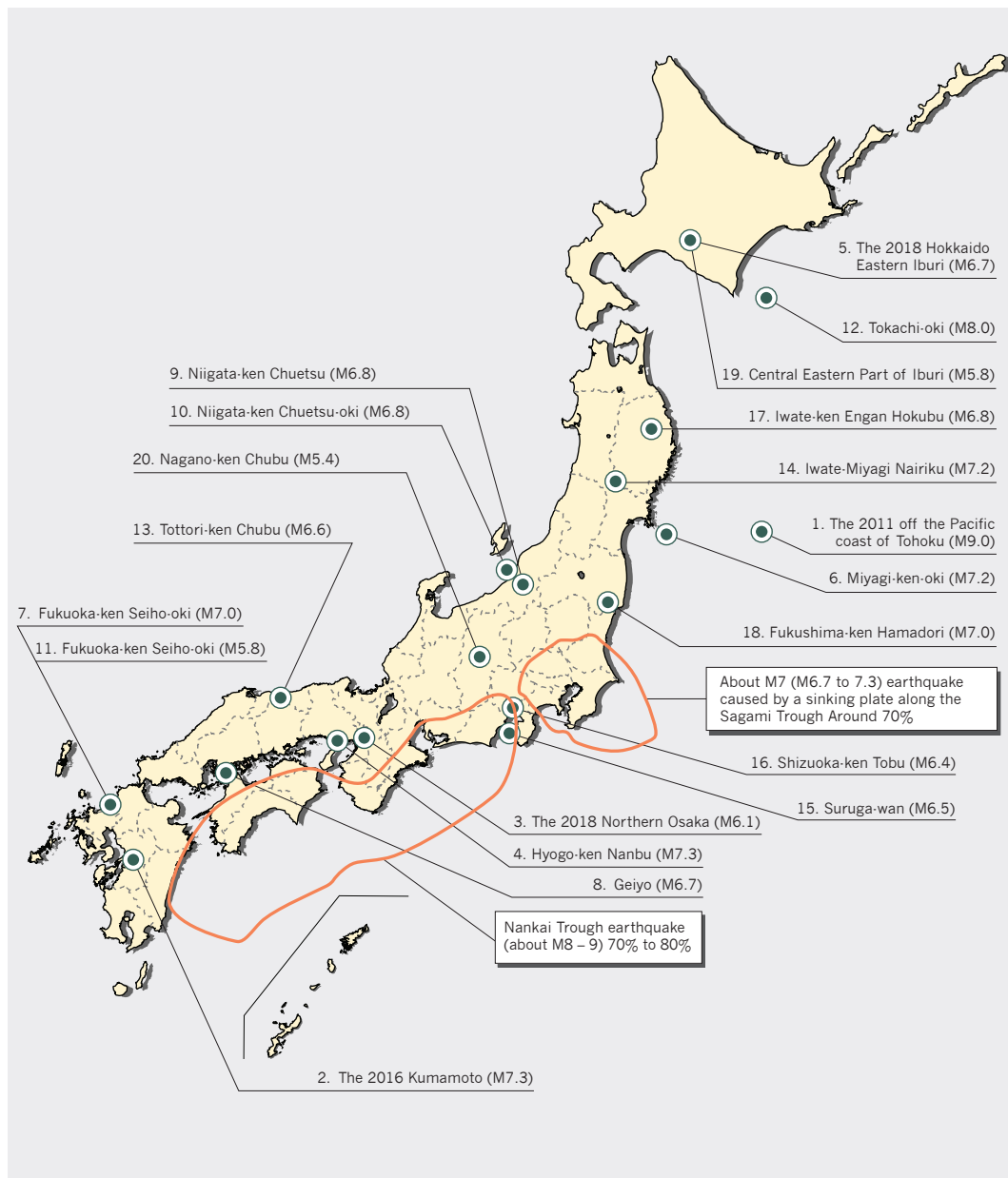
3: After the 2018 Northern Osaka Earthquake, in accordance with our reinsurance scheme at the time, the government paid 16,108 million yen and JER and non-life insurance companies paid 104,508 million yen.

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.\*



\* The epicenter areas for the Sagami Trough and the Nankai Trough in the above diagram are shown as the possible largest areas.

## Financial Section

### Financial Statements

1. Balance Sheets
2. Statements of Income
3. Statements of Cash Flow
4. Statement of Changes in Shareholders' Equity



# FINANCIAL STATEMENTS

## 1. Balance Sheets

### (ASSETS)

| Item                               | Fiscal Year | (Yen in millions)              |                                |
|------------------------------------|-------------|--------------------------------|--------------------------------|
|                                    |             | 2019<br>(As of March 31, 2020) | 2020<br>(As of March 31, 2021) |
| <b>Cash and deposits</b>           |             | <b>231,608</b>                 | <b>263,355</b>                 |
| Deposits                           |             | 231,608                        | 263,355                        |
| <b>Call loans</b>                  |             | <b>404</b>                     | <b>105</b>                     |
| <b>Monetary receivables bought</b> |             | <b>9,999</b>                   | <b>19,999</b>                  |
| <b>Securities</b>                  |             | <b>250,648</b>                 | <b>365,834</b>                 |
| Government bonds                   |             | 29,935                         | 16,687                         |
| Municipal bonds                    |             | 18,632                         | 73,774                         |
| Corporate bonds                    |             | 167,384                        | 249,705                        |
| Foreign securities                 |             | 34,695                         | 24,735                         |
| Other securities                   |             | -                              | 931                            |
| <b>Tangible fixed assets</b>       |             | <b>66</b>                      | <b>52</b>                      |
| Buildings                          |             | 22                             | 20                             |
| Other tangible fixed assets        |             | 44                             | 31                             |
| <b>Intangible fixed assets</b>     |             | <b>142</b>                     | <b>114</b>                     |
| Software                           |             | 141                            | 112                            |
| Other intangible fixed assets      |             | 1                              | 1                              |
| <b>Other assets</b>                |             | <b>17,928</b>                  | <b>17,812</b>                  |
| Reinsurance accounts receivable    |             | 17,517                         | 17,530                         |
| Accounts receivable                |             | 2                              | 3                              |
| Uncollected income                 |             | 227                            | 227                            |
| Deposits                           |             | 45                             | 45                             |
| Suspense payments                  |             | 9                              | 5                              |
| Derivatives                        |             | 125                            | -                              |
| <b>Total assets</b>                |             | <b>510,798</b>                 | <b>667,273</b>                 |

### (LIABILITIES)

| Item   | Fiscal Year | (Yen in millions)              |                                |
|--|-------------|--------------------------------|--------------------------------|
|  |             | 2019<br>(As of March 31, 2020) | 2020<br>(As of March 31, 2021) |
| <b>Underwriting funds</b>  |             | <b>470,107</b>                 | <b>631,956</b>                 |
| Outstanding claims   |             | 3,633                          | 118,581                        |
| Underwriting reserves  |             | 466,474                        | 513,374                        |
| <b>Entrusted reserves</b>  |             | <b>25,050</b>                  | <b>25,962</b>                  |
| <b>Other liabilities</b>   |             | <b>13,278</b>                  | <b>6,690</b>                   |
| Reinsurance accounts payable   |             | 12,605                         | 5,004                          |
| Income taxes payable   |             | 189                            | 457                            |
| Deposits payable   |             | 2                              | 3                              |
| Accrued amounts payable  |             | 187                            | 239                            |
| Derivatives  |             | 292                            | 986                            |
| <b>Reserve for retirement benefits</b>   |             | <b>163</b>                     | <b>151</b>                     |
| <b>Reserve for directors' retirement benefits</b>                                    |             | <b>13</b>                      | <b>10</b>                      |
| <b>Reserve for bonus payments</b>  |             | <b>23</b>                      | <b>23</b>                      |
| <b>Reserves under the special law</b>  |             | <b>0</b>                       | <b>0</b>                       |
| Reserve for price fluctuation  |             | 0                              | 0                              |
| <b>Net unrealized gains on available-for-sale securities of earthquake insurance</b> |             | <b>623</b>                     | <b>939</b>                     |
| <b>Total liabilities</b>   |             | <b>509,261</b>                 | <b>665,734</b>                 |

### (NET ASSETS)

| Item   | Fiscal Year | (Yen in millions)              |                                |
|--|-------------|--------------------------------|--------------------------------|
|  |             | 2019<br>(As of March 31, 2020) | 2020<br>(As of March 31, 2021) |
| <b>Common stock</b>  |             | <b>1,000</b>                   | <b>1,000</b>                   |
| <b>Retained earnings</b>                                     |             | <b>545</b>                     | <b>546</b>                     |
| 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                            | 488                            |
| <b>Treasury Stock</b>  |             | <b>(5)</b>                     | <b>(5)</b>                     |
| <b>Total shareholders' equity</b>                            |             | <b>1,540</b>                   | <b>1,540</b>                   |
| <b>Net unrealized gains on available-for-sale securities</b> |             | <b>(2)</b>                     | <b>(1)</b>                     |
| <b>Total valuation and translation adjustments</b>           |             | <b>(2)</b>                     | <b>(1)</b>                     |
| <b>Total net assets</b>                                      |             | <b>1,537</b>                   | <b>1,538</b>                   |
| <b>Total liabilities and net assets</b>                      |             | <b>510,798</b>                 | <b>667,273</b>                 |

### Notes for fiscal 2020

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.
- (11) Reinsurance transactions are based on provisions of earthquake reinsurance treaty concluded with non-life insurance companies and excess of loss reinsurance with the government. Premiums written is recorded when reports on earthquake reinsurance premiums are received, and insurance premiums recognized to have been ceded to non-life insurance companies and the government are recorded as reinsurance premiums ceded.  
Moreover, claims paid are recorded when statements of earthquake reinsurance claims are received, and insurance claims recognized to be recoverable by non-life insurance companies and the government are recorded as reinsurance claims recovered.
- (12) The aggregate amount for the total amount of outstanding claims reported by non-life insurance companies and amounts of claims from non-life insurance companies which is processed but unsettled are recorded as outstanding claims.  
The portion of outstanding claims equivalent to the portion covered by reinsurance in accordance with Article 73, Paragraph 3 of the Insurance Business Act is not recorded.
- (Additional information)  
We started to apply the Accounting Standard for Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020) to financial statements as of the end of the fiscal year under review. Accordingly, for reinsurance transactions and outstanding claims, it started to disclose accounting policies and methods adopted in case the related accounting standards are not clarified.
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, 2021.

(Yen in millions)

|   | Balance sheet amount | Fair value | Difference |
|---|----------------------|------------|------------|
| (i) Cash and deposits                                     | 263,355              | 263,355    | -          |
| (ii) Call loans   | 105                  | 105        | -          |
| (iii) Monetary receivables bought                         | 19,999               | 19,999     | -          |
| (iv) Securities Available-for-sale securities             | 365,834              | 365,834    | -          |
| Total assets  | 649,294              | 649,294    | -          |
| (v) Derivatives* to which hedge accounting is not applied | (986)                | (986)      | -          |
| Derivatives total   | (986)                | (986)      | -          |

\* 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 172 million yen.
6. See below for a breakdown of outstanding claims.

(Yen in millions)

|   |         |
|---|---------|
| Outstanding claims (before the deduction of outstanding reinsurance claims) | 162,321 |
| Outstanding reinsurance claims related to the above claims                  | 43,739  |
| Net outstanding claims  | 118,581 |

7. Total deferred tax assets amount to 738 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 557 million yen, unpaid business taxes of 102 million yen, a reserve for retirement benefits of 42 million yen and unpaid special business tax of 25 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 773.77 yen. The basis for this calculation is that net assets are 1,538 million yen, net assets accrued from ordinary shares are 1,538 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       | 2019<br>(from April 1, 2019<br>to March 31, 2020) |
|   | Amount            | Amount  |
| <b>Ordinary income</b>                                | <b>138,413</b>    | <b>234,352</b>                                    |
| <b>Underwriting income</b>                            | <b>137,376</b>    | <b>233,000</b>                                    |
| Net premiums written                                  | 129,298           | 232,822   |
| Investment income on savings premiums                 | 121               | 177   |
| Reversal of outstanding claims                        | 7,955             | -   |
| <b>Investment income</b>                              | <b>1,028</b>      | <b>1,339</b>                                      |
| Interest and dividend income                          | 872               | 752   |
| Gains on sales of securities                          | 184               | 96  |
| Gains on derivatives                                  | 91                | -   |
| Foreign exchange gains                                | -                 | 667   |
| Other investment income                               | 1                 | 0   |
| Transfer of investment income on savings premiums     | (121)             | (177)   |
| <b>Other ordinary income</b>                          | <b>7</b>          | <b>12</b>   |
| <b>Ordinary expenses</b>                              | <b>138,415</b>    | <b>234,351</b>                                    |
| <b>Underwriting expenses</b>                          | <b>136,265</b>    | <b>231,610</b>                                    |
| Net claims paid                                       | 26,223            | 10,187  |
| Loss adjustment expenses                              | 5,338             | 2,338   |
| Commissions and brokerage fees                        | 54,929            | 57,235  |
| Provision of outstanding claims                       | -                 | 114,948   |
| Provision of underwriting reserves                    | 49,773            | 46,900  |
| <b>Investment expenses</b>                            | <b>712</b>        | <b>1,006</b>                                      |
| Losses on sales of securities                         | 40                | 69  |
| Losses on derivatives                                 | -                 | 922   |
| Foreign exchange losses                               | 660               | -   |
| Other investment expenses                             | 11                | 15  |
| <b>Operating, general and administrative expenses</b> | <b>1,437</b>      | <b>1,733</b>                                      |
| <b>Other ordinary expenses</b>                        | <b>0</b>          | <b>-</b>  |
| <b>Ordinary profit (loss)</b>                         | <b>(2)</b>        | <b>0</b>  |
| <b>Extraordinary income</b>                           | <b>1</b>          | <b>-</b>  |
| Reversal of reserve for price fluctuation             | 1                 | -   |
| <b>Extraordinary losses</b>                           | <b>-</b>          | <b>0</b>  |
| Provision of reserve for price fluctuation            | -                 | 0   |
| <b>Net income (loss) before income taxes</b>          | <b>(0)</b>        | <b>0</b>  |
| <b>Income taxes</b>                                   | <b>0</b>          | <b>0</b>  |
| <b>Total income taxes</b>                             | <b>0</b>          | <b>0</b>  |
| <b>Net income (loss)</b>                              | <b>(1)</b>        | <b>0</b>  |

## Notes for fiscal 2020

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

| (Yen in millions)           |         |
|-----------------------------|---------|
| Premiums written:           | 328,017 |
| Reinsurance premiums ceded: | 95,195  |
| Net premiums written:       | 232,822 |

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

| (Yen in millions)             |        |
|-------------------------------|--------|
| Claims paid:                  | 14,114 |
| Reinsurance claims recovered: | 3,926  |
| Net claims paid:              | 10,187 |

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) | 157,303 |
| Provision of outstanding reinsurance claims related to the above claims                  | 42,355  |
| Net provision of outstanding claims  | 114,948 |

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

| (Yen in millions)            |     |
|------------------------------|-----|
| Deposits:                    | 8   |
| Call loans:                  | 0   |
| Monetary receivables bought: | 2   |
| Securities:                  | 741 |
| Total:                       | 752 |

5. Paper profit/loss involved in the losses on derivatives is a loss of 986 million yen.

6. Net income per share is 0.17 yen.

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

7. The legal effective tax rate at the end of the term is 28.00%, and the corporate tax burden after applying the tax effect is 46.67%. The difference is explained by the following breakdown: valuation reserve 16,479.26%, the amount of the write-off carried from publicity expenses related to risk reserves (16,514.54%).

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

### 3. Statements of Cash Flow

| Item  | (Yen in millions) |   |
|---|-------------------|---|
|   | Fiscal Year       | 2019<br>(from April 1, 2019<br>to March 31, 2020) |
|   | Amount            | Amount  |
| <b>Cash flow from operating activities</b>  |                   |   |
| Net income (loss) before income taxes   | (0)               | 0   |
| Depreciation  | 96                | 78  |
| Increase (decrease) in outstanding claims   | (7,955)           | 114,948   |
| Increase (decrease) in underwriting reserves  | 49,773            | 46,900  |
| Increase (decrease) in entrusted reserves   | 1,291             | 911   |
| Increase (decrease) in reserve for retirement benefits  | 11                | (12)  |
| Increase (decrease) in reserve for directors' retirement benefits                                 | (0)               | (3)   |
| Increase (decrease) in reserve for bonus payments   | (0)               | 0   |
| Increase (decrease) in reserve for price fluctuation  | (1)               | 0   |
| Interest and dividend income  | (872)             | (752)   |
| Losses (gains) on investment in securities  | (144)             | (27)  |
| Foreign exchange losses (gains)   | 371               | (1,132)   |
| Decrease (increase) in other assets (other than investment and financial activities related)      | (115)             | (10)  |
| Increase (decrease) in other liabilities (other than investment and financial activities related) | 220               | (7,548)   |
| Others  | 156               | 1,086   |
| Subtotal  | 42,830            | 154,439   |
| Interest and dividends received   | 1,337             | 1,347   |
| Income taxes paid   | (0)               | (0)   |
| Net cash provided by operating activities   | 44,167            | 155,787   |
| <b>Cash flow from investing activities</b>  |                   |   |
| Net increase (decrease) in deposits   | -                 | (65,030)  |
| Purchase of monetary receivables bought   | (27,999)          | (19,997)  |
| Proceeds from sales and redemption of monetary receivables bought                                 | 27,999            | 24,998  |
| Purchase of securities  | (123,665)         | (199,266)   |
| Proceeds from sales and redemption of securities  | 99,532            | 84,962  |
| Total investment assets activities  | (24,132)          | (174,333)   |
| Total operating activities and investment assets activities                                       | 20,035            | (18,546)  |
| Acquisition of tangible fixed assets  | (2)               | (0)   |
| Others  | (3)               | (34)  |
| Net cash provided by investing activities   | (24,139)          | (174,369)   |
| <b>Cash flow in financing activities</b>  |                   |   |
| Effect of exchange rate changes on cash and cash equivalents                                      | -                 | -   |
| Net increase (decrease) in cash and cash equivalents  | 20,028            | (18,582)  |
| Cash and cash equivalents at the beginning of the year  | 197,983           | 218,012   |
| Cash and cash equivalents at the end of the year  | 218,012           | 199,430   |

### Notes for fiscal 2020

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, 2020) | (As of March 31, 2021) |
| Cash and deposits                                       | 231,608                | 263,355                |
| Call loans  | 404                    | 105                    |
| Monetary receivables bought                             | 9,999                  | 19,999                 |
| Securities  | 250,648                | 365,834                |
| Deposits of a depository period over three months       | (14,000)               | (79,030)               |
| Monetary receivables bought other than cash equivalents | (9,999)                | (4,999)                |
| Securities other than cash equivalent                   | (250,648)              | (365,834)              |
| Cash and cash equivalents                               | 218,012                | 199,430                |

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 2019 (from April 1, 2019 to March 31, 2020)

(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 | Total retained earnings |                |  |   |                  |  |
|   |                      | Special reserves                   | Special price fluctuation reserves       |    |                                   |                         |                |  |   |                  |  |
| Balance at the beginning of the period      | 1,000                | 1                                  | 17                                       | 39 | 489                               | 546                     | (5)            | 1,541                                  | 1   | 1                | 1,543  |
| Changes during the period                   |                      |                                    |  |    |                                   |                         |                |  |   |                  |  |
| Net income (loss)                           |                      |                                    |  |    | (1)                               | (1)                     |                | (1)                                    |   |                  | (1)  |
| Net changes other than shareholders' equity |                      |                                    |  |    |                                   |                         |                |  | (4)   | (4)              | (4)  |
| Total changes                               |                      |                                    |  |    | (1)                               | (1)                     |                | (1)                                    | (4)   | (4)              | (5)  |
| Balance at the end of the period            | 1,000                | 1                                  | 17                                       | 39 | 487                               | 545                     | (5)            | 1,540                                  | (2)   | (2)              | 1,537  |

Fiscal 2020 (from April 1, 2020 to March 31, 2021)

(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 | Total retained earnings |                |  |   |                  |  |
|   |                      | Special reserves                   | Special price fluctuation reserves       |    |                                   |                         |                |  |   |                  |  |
| Balance at the beginning of the period      | 1,000                | 1                                  | 17                                       | 39 | 487                               | 545                     | (5)            | 1,540                                  | (2)   | (2)              | 1,537  |
| Changes during the period                   |                      |                                    |  |    |                                   |                         |                |  |   |                  |  |
| Net income (loss)                           |                      |                                    |  |    | 0                                 | 0                       |                | 0                                      |   |                  | 0  |
| Net changes other than shareholders' equity |                      |                                    |  |    |                                   |                         |                |  | 0   | 0                | 0  |
| Total changes                               |                      |                                    |  |    | 0                                 | 0                       |                | 0                                      | 0   | 0                | 0  |
| Balance at the end of the period            | 1,000                | 1                                  | 17                                       | 39 | 488                               | 546                     | (5)            | 1,540                                  | (1)   | (1)              | 1,538  |

#### Notes for fiscal 2020

- 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 2019 | Increase in fiscal 2020 | Decrease in fiscal 2020 | Balance as of the end of fiscal 2020 |
|----------------|----------------|--------------------------------------|-------------------------|-------------------------|--------------------------------------|
| 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                               |

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

**CORPORATE DATA** (as of March 31, 2021)

---

|               |  |
|---------------|--|
| Established:  | May 30, 1966   |
| Capital:      | 1 billion yen  |
| Total assets: | 667.2 billion yen  |
| Address:      | Hulic Kobuna-cho Building,<br>8-1, Nihonbashi-kobuna-cho,<br>Chuo-ku, Tokyo Japan 103-0024 |
| Phone:        | 03-3664-6078   |
| URL:          | <a href="https://www.nihonjishin.co.jp/">https://www.nihonjishin.co.jp/</a>                |

---



**Japan Earthquake Reinsurance**