

2023 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.

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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 all the people affected by the earthquake off the coast of the Noto region of Ishikawa prefecture in May this year and other earthquakes. Japan Earthquake Reinsurance Co., Ltd. ("JER") has been committed to continuing key operations such as reinsurance payouts despite the COVID crisis, with a range of measures to help prevent the spread of COVID-19 such as staggered commuting, teleworking and online meetings. Since the establishment of the earthquake reinsurance scheme in 1966, JER, the only reinsurance company in Japan specializing in household earthquake insurance, has adopted "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" as its management philosophy and has worked to realize this philosophy. JER has sought to make prompt and reliable reinsurance payouts, its key mission, in the aftermath of disasters such as the Great Hanshin-Awaji Earthquake in 1995, the Great East Japan Earthquake in 2011, the Kumamoto earthquakes in 2016, and the 2021 and 2022 earthquakes near Tohoku. Given that earthquake insurance plays an important part in supporting the lives of the people affected by such disasters, the earthquake reinsurance scheme was developed through collaboration between the Japanese government, private non-life insurance companies and JER. Through the joint efforts of both the public and private sectors, the scheme is run in such a way that it facilitates prompt and reliable earthquake insurance payouts. It is believed that major earthquakes, such as a Nankai Trough earthquake or an inland Tokyo earthquake, will definitely occur in the near future. It is necessary to anticipate the simultaneous occurrence of meteorological disasters, which are increasing in severity and frequency, pandemics and cyber attacks. To fulfill our responsibilities as a reinsurance company specializing in earthquake insurance, JER is developing a system to pay insurance proceeds promptly in case of contingencies. JER believes it is also important to undertake initiatives to solve social issues, such as enhancing disaster prevention capabilities to minimize damage to society when disasters do occur and strengthening society's resilience so that it can quickly overcome and recover from disasters. In light of the changes described above, JER formulated its medium- to long-term corporate vision, "Moving into the next stage of security with the strength of an earthquake insurance specialist," and started to implement the 6th Medium-Term Management Plan in FY2021. Specifically, building on its sophisticated management (ERM) and the promotion of SDGs management, JER is pursuing a human asset strategy and digital transformation (DX). It is focusing on the following four strategies: promoting initiatives toward the evolution of the earthquake insurance system, establishing an asset management system with an eye to an asset size of 1 trillion yen, establishing a system for prompt payouts at the time of a complex disaster and improving the percentage of earthquake insurance as an accessory contract to fire insurance, as well as raising awareness of disaster preparedness and mitigation. Fully recognizing our social responsibilities and mission, we will continue contributing to the "development of the earthquake insurance system" and the "realization of a safe and secure society" through the earthquake reinsurance business, aiming to earn greater trust from our stakeholders. As such, we sincerely appreciate your continued support.

July 2023

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.

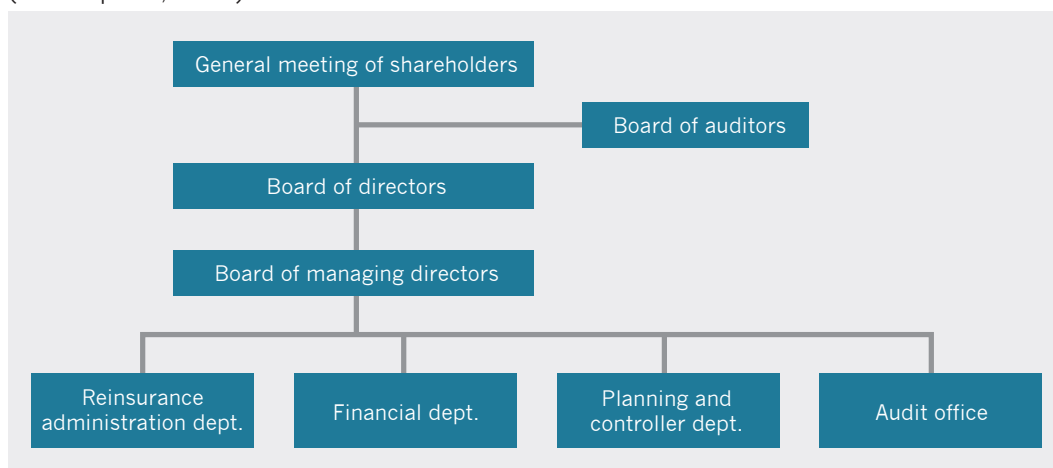
Earthquake insurance on dwelling risks depends on this reinsurance system (which is a safety net, as it were), in which the government, non-life insurance companies and JER participate to ensure that insurance claims can be paid to policyholders without fail.

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, 2023)



SHAREHOLDERS

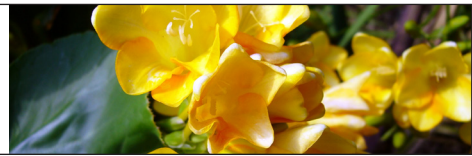
(As of March 31, 2023)

Shareholder	No. of shares owned (1,000 shares)	Percentage of shares 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, 2023)

Post	Name
Chairman (representative director)	Kazuhiko Ishihara
President (representative director)	Shoji Ito
Managing director (representative director)	Hiroyuki Hata
Managing director (representative director)	Satoshi Takayama
Corporate auditor	Tsuyoshi Suzuki



MANAGEMENT INFORMATION

JER is now in the last year of the 6th 3-year Medium-Term Management Plan launched 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.

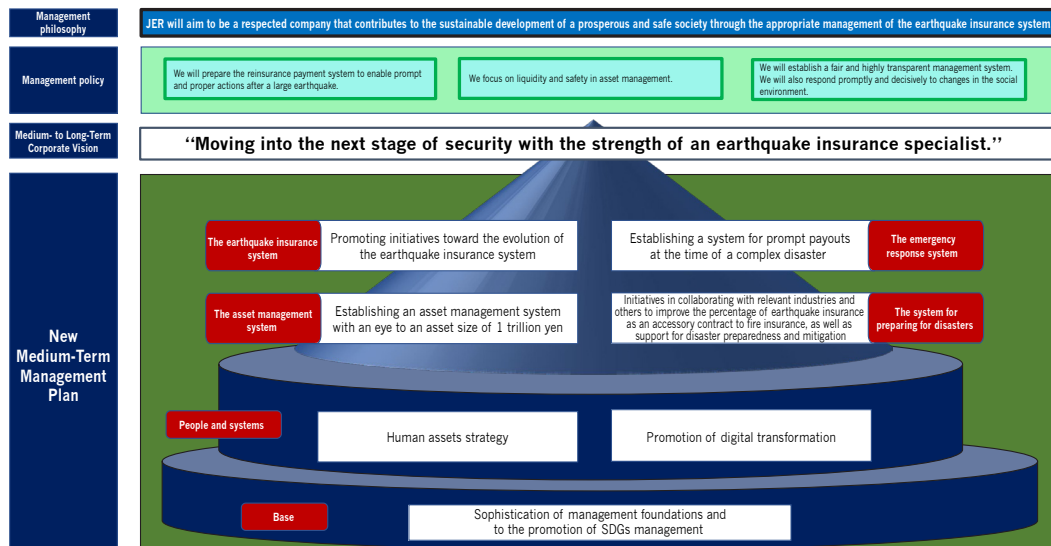
[Medium- to long-term corporate vision]

“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 6th Medium-Term Management Plan (outline) [2021-2023]

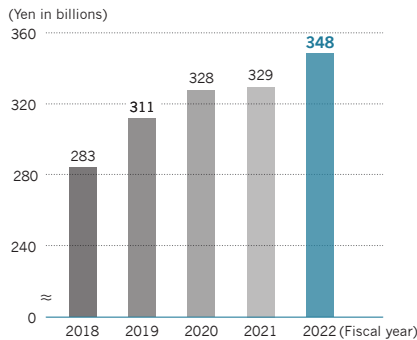


FINANCIAL HIGHLIGHTS

PREMIUMS WRITTEN

348 bn

Premiums written = Gross premiums written – Cancellation refunds, other refunds



UNDERWRITING PROFIT, ORDINARY PROFIT, NET INCOME

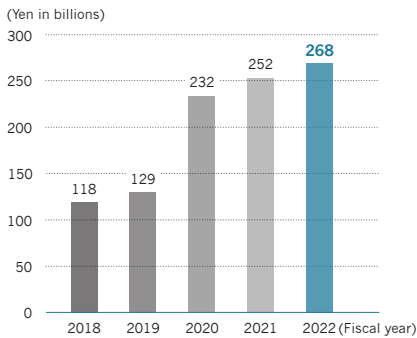
No underwriting profit was written.

All underwriting profits and investment income generated shall be set aside in an underwriting reserve for future major earthquakes in accordance with the Law on Earthquake Insurance.

NET PREMIUMS WRITTEN

268 bn

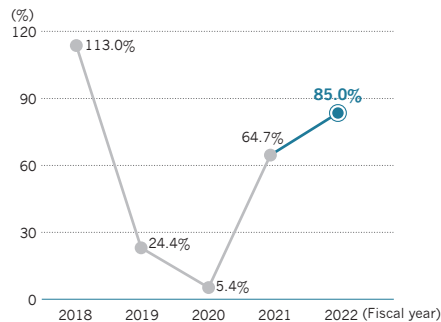
Net premiums written = Premiums written – Reinsurance premiums ceded



NET LOSS RATIO

85.0%

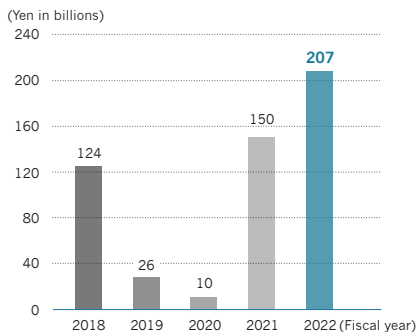
Net loss ratio = (Net claims paid + Loss adjustment expenses) ÷ Net premiums written



NET CLAIMS PAID

207 bn

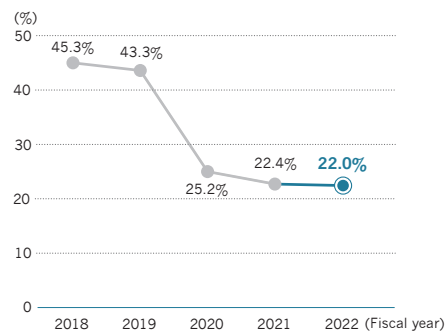
Net claims paid = Claims paid – Reinsurance claims recovered



NET EXPENSE RATIO

22.0%

Net expense ratio = Underwriting expenses ÷ Net premiums written

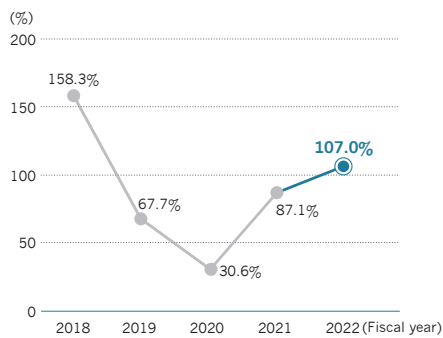




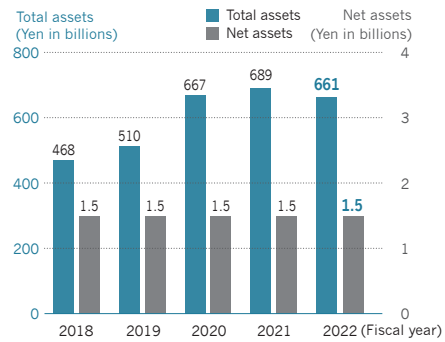
COMBINED RATIO

107.0%

Combined ratio = Net loss ratio + Net expense ratio



TOTAL ASSETS, NET ASSETS



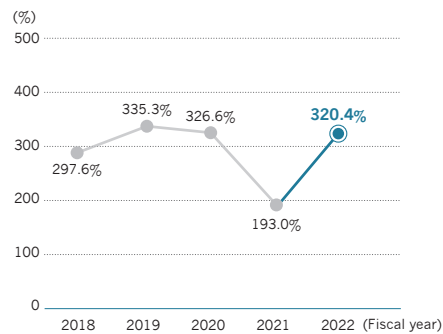
NON-CONSOLIDATED SOLVENCY MARGIN RATIO

320.4%

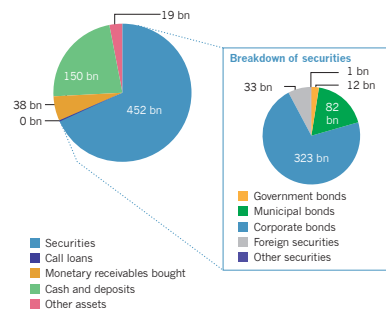
The solvency margin ratio is an indicator that shows the ratio of the solvency margin of capital and reserves against risks that exceed normal expectations, such as the occurrence of a major disaster or a significant drop in the price of assets held by the company.

The solvency margin ratio is one of the indicators used by administrative authorities to judge the soundness of an insurance company's management, and if the ratio is 200% or higher, the company is considered to have "adequate solvency to pay insurance claims."

However, since JER has a special business structure based on the "Law Concerning Earthquake Insurance," the solvency margin ratio is not used as a numerical value for the administrative authority's criteria for issuing an improvement order, etc.



Breakdown of total assets



FINANCIAL HIGHLIGHTS IN LAST 5 FISCAL YEARS

(Yen in millions)

	2018	2019	2020	2021	2022
Net premiums written	118,679	129,298	232,822	252,468	268,987
Rate of change	22.0%	8.9%	80.1%	8.4%	6.5%
Net claims paid	124,276	26,223	10,187	150,088	207,758
Rate of change	1,292.5%	(78.9%)	(61.2%)	1,373.2%	38.4%
Ordinary income	199,942	138,413	234,352	254,971	413,488
Rate of change	97.4%	(30.8%)	69.3%	8.8%	62.2%
Ordinary expenses	199,940	138,415	234,351	254,970	413,487
Rate of change	97.4%	(30.8%)	69.3%	8.8%	62.2%
Ordinary profit (loss)	1	(2)	0	1	0
Rate of change	—	(201.3%)	—	63.3%	(44.3%)
Net income (loss)	1	(1)	0	1	0
Rate of change	—	(174.3%)	—	351.4%	(83.9%)
Net loss ratio	113.0%	24.4%	5.4%	64.7%	85.0%
Net expense ratio	45.3%	43.3%	25.2%	22.4%	22.0%
Interest and dividend income	1,107	872	752	594	778
Rate of change	(6.3%)	(21.2%)	(13.8%)	(21.0%)	30.9%
Income yield	0.22%	0.19%	0.13%	0.10%	0.13%
Realized yield	0.09%	0.09%	0.09%	0.14%	0.09%
Common stock	1,000	1,000	1,000	1,000	1,000
Number of shares outstanding	2 mil. shares	2 mil. shares	2 mil. shares	2 mil. shares	2 mil. shares
Net assets	1,543	1,537	1,538	1,529	1,501
Total assets	468,425	510,798	667,273	689,022	661,059
Underwriting reserves	416,700	466,474	513,374	520,665	643,330
Rate of change	(15.9%)	11.9%	10.1%	1.4%	23.6%
Of which, risk reserves	203,074	222,835	239,829	231,150	333,368
Rate of change	(33.2%)	9.7%	7.6%	(3.6%)	44.2%
Loans	—	—	—	—	—
Rate of change	—	—	—	—	—
Securities	228,248	250,648	365,834	457,705	452,280
Rate of change	14.0%	9.8%	46.0%	25.1%	(1.2%)
Non-consolidated solvency margin ratio	297.6%	335.3%	326.6%	193.0%	320.4%
Net assets per share	776.01 yen	773.32 yen	773.77 yen	769.30 yen	755.24 yen
Net income (loss) per share	0.79 yen	(0.59 yen)	0.17 yen	0.75 yen	0.12 yen
Dividend propensity	—	—	—	—	—
Number of employees	29	27	28	30	30

Our solvency margin ratio is not to be used as a figure for the criteria for triggering improvement orders, etc. issued by administrative authorities.

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

Under the Earthquake Insurance, insurance claims are paid out when the policyholder's residential building and/or personal property have sustained total loss, large half loss, small half loss or partial loss.

(Table 1)

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)

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)

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

* *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 29 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.

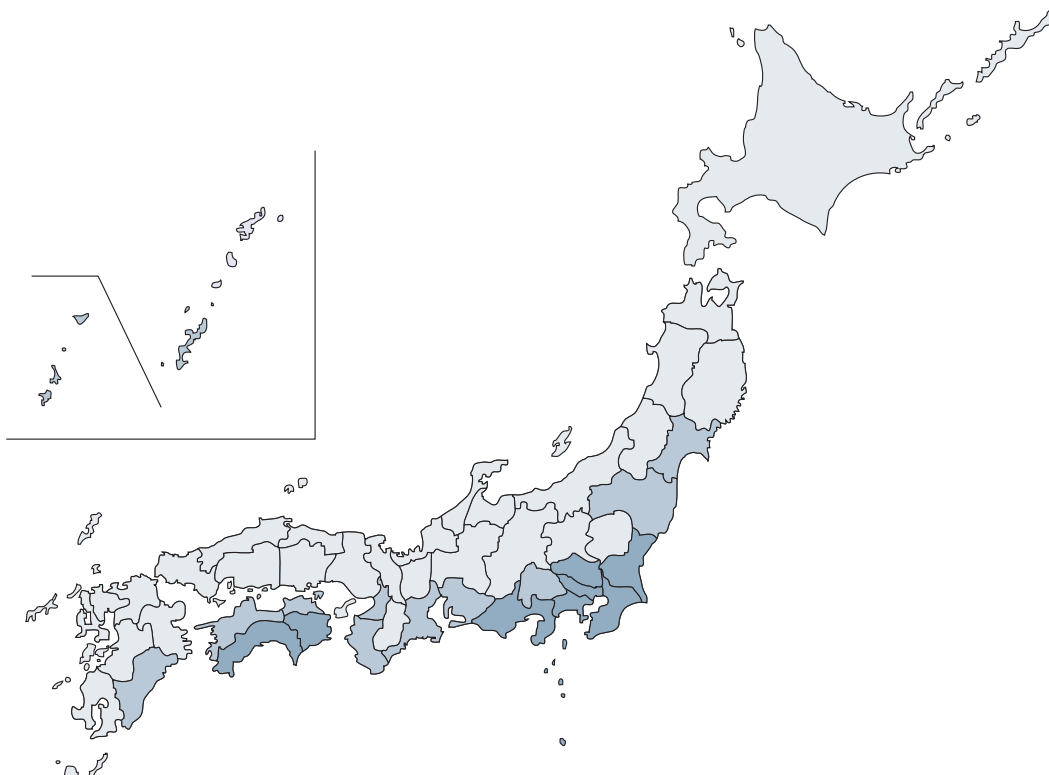
*** *The Headquarters for Earthquake Research Promotion*

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, Oita-ken, Kagoshima-ken	7,300	11,200
2	Miyagi-ken, Fukushima-ken, Yamanashi-ken, Aichi-ken, Mie-ken, Osaka-fu, Wakayama-ken, Kagawa-ken, Ehime-ken, Miyazaki-ken, Okinawa-ken	11,600	19,500
3	Ibaraki-ken, Tokushima-ken, Kochi-ken	23,000	41,100
	Saitama-ken	26,500	
	Chiba-ken, Tokyo-to, Kanagawa-ken, Shizuoka-ken	27,500	





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%
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(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%
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(d) Building age discount rate

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

Discount rate	10%
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* *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	4.70

An example of insurance premiums calculated

A non wooden residential building constructed in January 2000 in Ibaraki-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: Ibaraki-ken, non wooden
→ 2.30 (premium per 1,000 yen insurance)
- Confirming the discount rate applicable: Building constructed in and after June 1981
→ 10%

$$\begin{array}{l} \text{Earthquake insurance premium} \\ \text{on residential building} \end{array} = \begin{array}{l} \text{Earthquake} \\ \text{amount insured} \end{array} \times \begin{array}{l} \text{Earthquake insurance} \\ \text{premium rate} \end{array} \times \begin{array}{l} \text{Discount rate} \\ (100\% - 10\%) \end{array} = 20,700 \text{ (yen)} \\ \begin{array}{l} 10,000 \\ (1,000 \text{ yen}) \end{array} \times \underbrace{2.30 \times 2.07}_{2.07} \end{array}$$

$$\begin{array}{l} \text{Earthquake insurance premium} \\ \text{on personal property} \end{array} = \begin{array}{l} \text{Earthquake} \\ \text{amount insured} \end{array} \times \begin{array}{l} \text{Earthquake insurance} \\ \text{premium rate} \end{array} \times \begin{array}{l} \text{Discount rate} \\ (100\% - 10\%) \end{array} = 10,350 \text{ (yen)} \\ \begin{array}{l} 5,000 \\ (1,000 \text{ yen}) \end{array} \times \underbrace{2.30 \times 2.07}_{2.07} \end{array}$$

* 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.

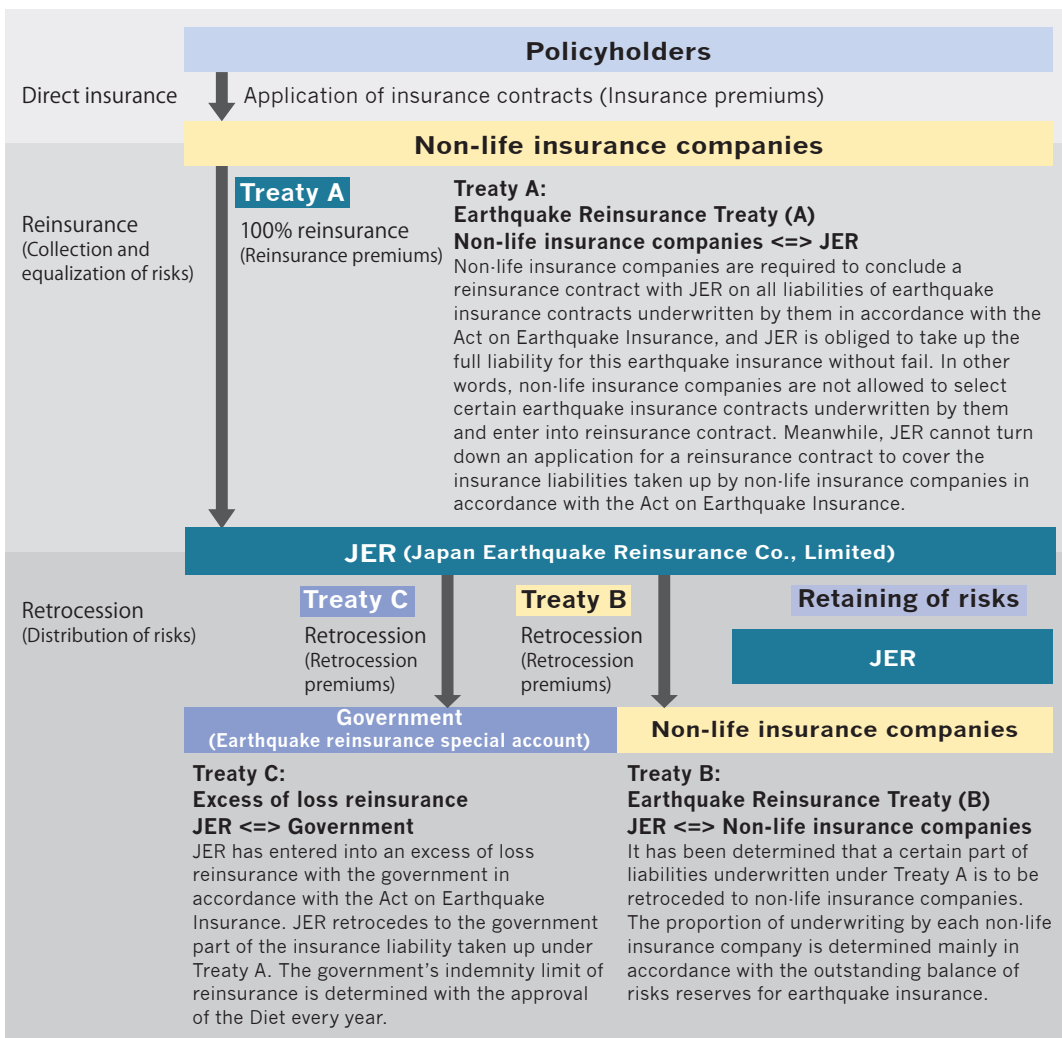
This means that the amount of reinsurance claim paid by JER is the same as the amount of the insurance claim paid to the policyholder by the non-life insurance company.

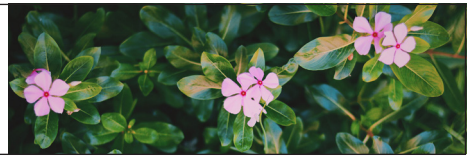
When a major earthquake occurs, a non-life insurance company must make a large amount of money ready so that it can pay a large number of insurance claims. To avoid problems in paying insurance claims, the government has set forth a ministerial ordinance that covers the payment of reinsurance claims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

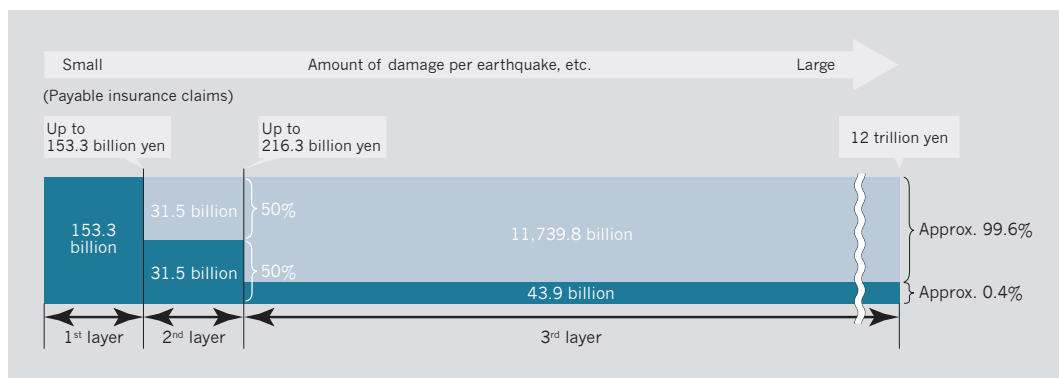




INSURANCE LIABILITIES HELD BY JER, NON-LIFE INSURANCE COMPANIES AND THE GOVERNMENT

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, 2023)



LIABILITY LIMIT

JER and non-life insurance companies	228.7 billion yen
The government	11,771.3 billion yen

JER and non-life insurance companies pay insurance claims up to 153.3 billion yen (1st layer) per earthquake, etc. The government and others (non-life insurance companies and JER) share equally insurance claims for the portion exceeding 153.3 billion yen, up to 216.3 billion yen (2nd layer). The government pays a majority of insurance claims (approximately 99.6%) for the portion exceeding 216.3 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	Claims paid			Total
	Portion up to 153.3 billion yen	Portion over 153.3 billion yen, and up to 216.3 billion yen	Portion over 216.3 billion yen, and up to 2,000 billion yen	
JER and Non-life insurance companies	153.3	31.5	About 6.6	About 191.4
The government	—	31.5	About 1,777.1	About 1,808.6
Total	153.3	63.0	1,783.7	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 2022

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 and Non-life insurance companies	345.3 billion yen
The government	1,995.7 billion yen
Total	2,341.0 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 2022 is approved by the Diet.

STATISTICS

REINSURANCE CLAIMS PAID IN FISCAL 2022

Reinsurance claims paid in fiscal 2022 amounted to 290.0 billion yen, including reinsurance claims paid to cover the earthquake centered in Fukushima Prefecture's offshore area. In terms of numbers, 361,042 claims were paid (on the basis of insurance policies). See below for claims paid for major earthquakes, etc.

Earthquake (Region name)	Date of occurrence	Magnitude	No. of policies	Reinsurance claims paid (million yen)
1. Fukushima-ken-oki	March 16, 2022	7.4	320,920	265,427
2. Hyuganada	January 22, 2022	6.6	19,584	11,838
3. Fukushima-ken-oki	February 13, 2021	7.3	6,383	4,138
4. Chiba-ken Hokuseibu	October 7, 2021	5.9	5,497	3,623
5. The 2018 Northern Osaka	June 18, 2018	6.1	1,221	663
Other earthquakes	—	—	7,437	4,375
Total	—	—	361,042	290,066

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	23,229	8,268	35.6	Nearly 0%–6%
Tokyo metropolitan	19,522	7,093	36.3	About 70%
Nankai trough	48,297	17,287	35.8	70%–80%

Note 1: JER prepared the number of households and the number of policies, assuming that major prefectures were stricken.

2: The probability that an earthquake could occur within the next 30 years is based on the 2023 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, 2023)

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	826,110	1,289,404
2. The 2016 Kumamoto	April 14, 2016	7.3	215,642	390,894
3. Fukushima-ken-oki	March 16, 2022	7.4	320,920	265,427
4. Fukushima-ken-oki	February 13, 2021	7.3	245,982	250,905
5. The 2018 Northern Osaka	June 18, 2018	6.1	159,369	124,831
6. The 1995 Hyogo-ken Nanbu	January 17, 1995	7.3	65,427	78,346
7. The 2018 Hokkaido Eastern Iburi	September 6, 2018	6.7	73,871	53,613
8. Miyagi-ken-oki	April 7, 2011	7.2	31,018	32,414
9. Miyagi-ken-oki	March 20, 2021	6.9	23,529	18,938
10. Fukuoka-ken Seiho-oki	March 20, 2005	7.0	22,066	16,973
11. The 2001 Geiyo	March 24, 2001	6.7	24,453	16,942
12. The 2004 Niigata-ken Chuetsu	October 23, 2004	6.8	12,610	14,898
13. Hyuganada	January 22, 2022	6.6	19,642	11,863
14. Chiba-ken Hokuseibu	October 7, 2021	5.9	16,426	11,007
15. The 2007 Niigata-ken Chuetsu-oki	July 16, 2007	6.8	7,873	8,251
16. Miyagi-ken-oki	May 1, 2021	6.8	11,028	8,110
17. Fukuoka-ken Seiho-oki	April 20, 2005	5.8	11,338	6,430
18. The 2003 Tokachi-oki	September 26, 2003	8.0	10,553	5,990
19. Tottori-ken Chubu	October 21, 2016	6.6	7,268	5,620
20. The 2008 Iwate-Miyagi Nairiku	June 14, 2008	7.2	8,276	5,545

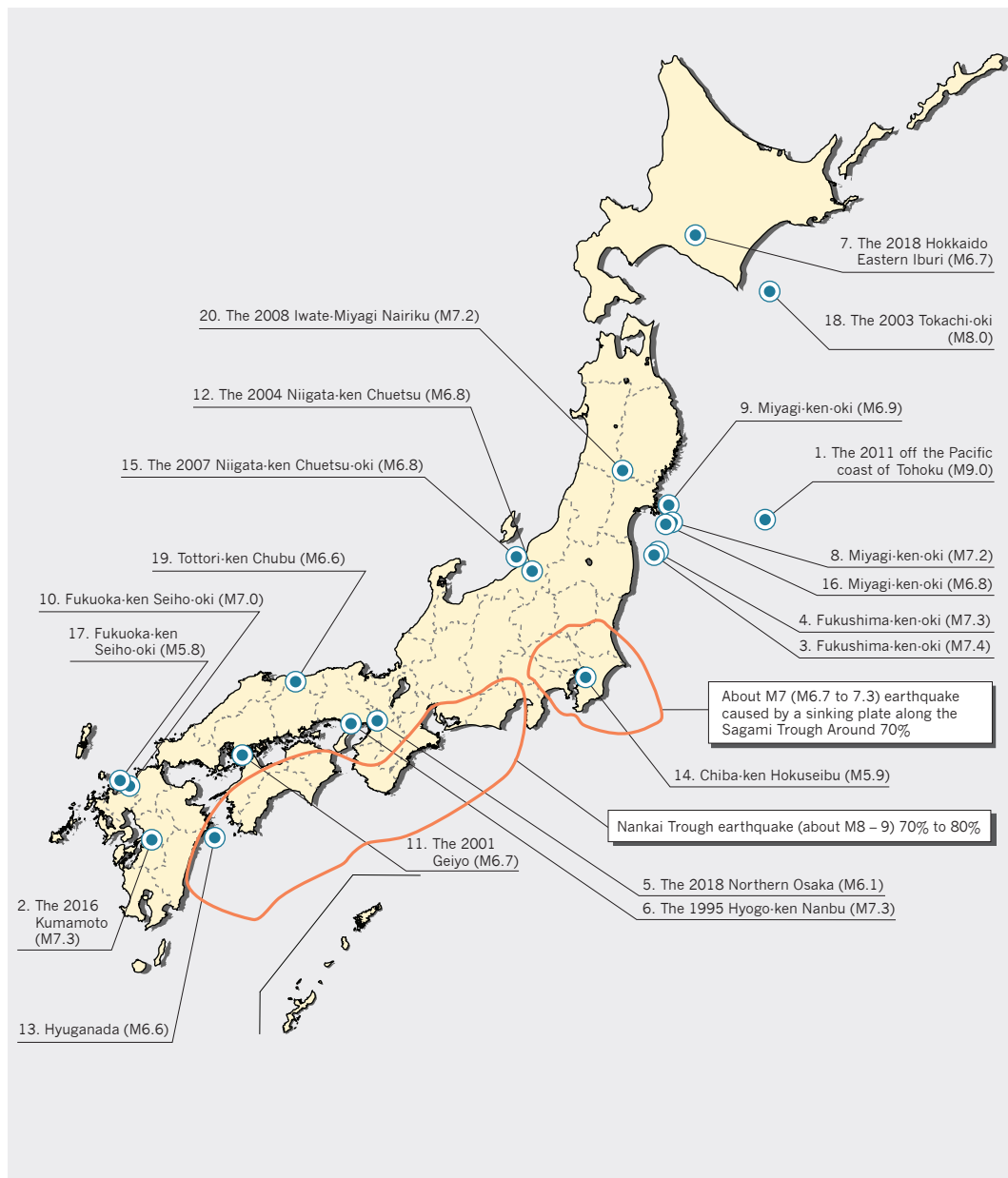
Note: Earthquakes with government liability coverage for the earthquakes listed above are as follows, depending on the reinsurance scheme in force at the time of the earthquake.

Earthquake (Region name)	Government paid (million yen)	Earthquake (Region name)	Government paid (million yen)
1. The 2011 off the Pacific coast of Tohoku	587,202	4. Fukushima-ken-oki (February 13, 2021)	130,392
2. The 2016 Kumamoto	137,797	5. The 2018 Northern Osaka	18,215
3. Fukushima-ken-oki (March 16, 2022)	69,763	6. The 1995 Hyogo-ken Nanbu	6,173



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.

SUSTAINABILITY

JER recognizes that efforts to create a sustainable society are an important issue, and is taking the following initiatives to achieve the Sustainable Development Goals (SDGs) adopted at the UN Summit in September 2015.



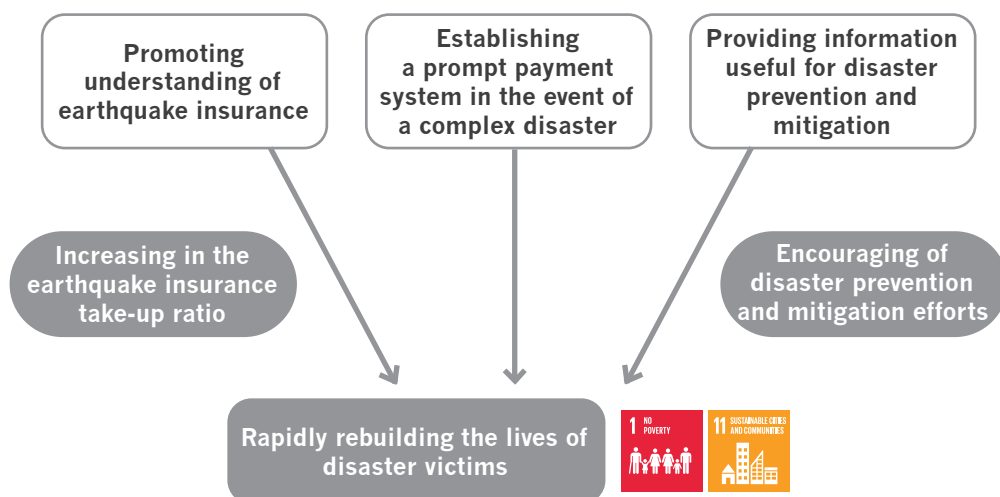
INITIATIVES THROUGH BUSINESS ACTIVITIES

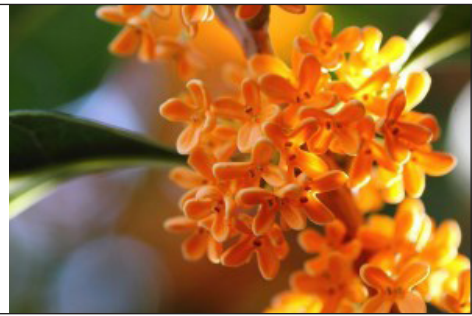


JER aims to achieve the SDGs by providing safety and security to support the lives of those affected by earthquake disasters through the operation of its earthquake insurance system, as the only company underwriting earthquake reinsurance on dwelling risks in Japan.

In recent years, Japan has experienced frequent natural disasters such as earthquakes, typhoons, and torrential rains. Mean while, the probability of a major earthquake in the near future, such as an earthquake directly under the Tokyo metropolitan area or the Nankai Trough, is increasing. Therefore, JER will contribute to the reconstruction of the lives of disaster victims by developing a system that enables prompt and reliable reinsurance payments even when disasters and infectious diseases occur simultaneously.

JER will also promote understanding of earthquake insurance as a means to support the reconstruction of people's lives after a disaster, and will use its extensive database to provide useful information on disaster prevention and disaster mitigation. Through these such efforts to increase the earthquake insurance take-up ratio and to contribute to disaster prevention and disaster mitigation, JER will help build "Sustainable Cities and Communities."





PROVIDING LECTURES AT EARTHQUAKE INSURANCE SEMINARS HELD BY INDEPENDENT INSURANCE AGENTS

JER Managing Director Motomi Ikeda lectured about earthquake insurance at seminars held by the Independent Insurance Agents of Okinawa and by the Independent Insurance Agents of Iwate. In addition to giving a general explanation of earthquake insurance, Managing Director Ikeda described why the earthquake insurance scheme has become what it is today (its development from its establishment up to today) and how the government is involved in reinsurance to ensure the strength of the scheme and to enable agents to confidently offer insurance products to customers. He gave some examples related to the Great East Japan Earthquake.



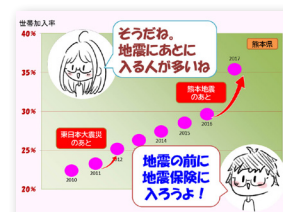
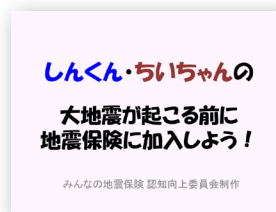
SENDING EMPLOYEES TO UNIVERSITIES TO LECTURE

JER sends employees to universities to lecture about earthquake insurance to promote people's understanding of the earthquake insurance scheme. In FY2022, JER lecturers provided lectures to students enrolled in courses related to non-life insurance at four universities: Hokkaido University, Tohoku University, Nagoya University and Osaka University. They provided an overview of the earthquake insurance scheme, reinsurance mechanisms, and the roles of the government, non-life insurance companies and JER in earthquake insurance using charts.



BEGINNING THE DISTRIBUTION OF VIDEOS ABOUT EARTHQUAKE INSURANCE

JER has created an official channel on YouTube, a video sharing platform, and started to share videos about earthquake insurance. Shin-kun, a fifth grade boy, and his older sister, Chii-chan, appear in videos. They learn that earthquakes can occur anywhere and that insurance benefits are helpful for rebuilding lives. They emphasize the importance of taking out earthquake insurance before earthquakes occur.



ESG INVESTMENT



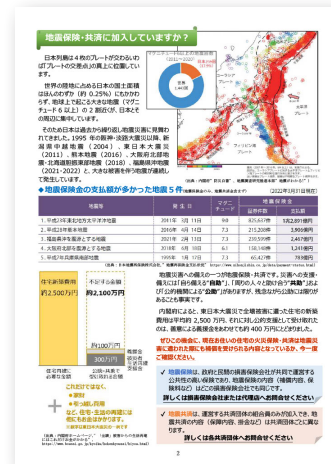
In light of the public nature as an earthquake reinsurance company, JER aims to generate investment income and solve social issues at the same time. JER engages in environmental, social and governance (ESG) investment to provide funds to bet-

ter companies and businesses using environmental and social criteria. JER chooses investee companies based on the comprehensive assessment of the companies. In addition to financial information, JER considers companies' ESG practices, particularly their handling of environmental and social issues.

Through constructive dialogue with its investee companies, JER encourages the companies to take specific measures, including climate change measures and earthquake countermeasures. JER also asks for their understanding of and support for the promotion of earthquake insurance. In FY2022, JER cooperated in the creation of an article about the importance of enrolling in earthquake insurance published in the Aichi Disaster Prevention Newsletter (No. 19) published by the Aichi prefectural government.

The table below shows the number of investments made by JER in SDG bonds (bonds compliant with the International Capital Market Association (ICMA)'s Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, Sustainability-Linked Bond Guidelines and Climate Transition Finance Handbook whose proceeds are used for projects that will contribute to the achievement of the SDGs). The number of investments in FY2022 declined because JER reduced its investments in securities due to an increase in insurance proceeds paid. However, JER has been investing more than 10% of its investments in securities in SDG bonds since FY2020.

Investments (number of investments) in SDG bonds	FY2020	FY2021	FY2022
Green Bonds	5	5	7
Social Bonds	15	23	5
Sustainability Bonds	5	7	7
Sustainability Linked Bonds	-	2	2
Total	25	37	21



PROMOTING DIVERSITY AND INCLUSION



JER acts to enable employees with diverse values to have job satisfaction and fully demonstrate their capabilities.

WORK STYLE REFORMS

JER enabled employees to have more flexible work styles by allowing all employees to work remotely or have staggered work hours and issuing them thin client terminals and smart-phones.

During the 6th Medium-Term Management Plan, JER is reviewing internal operations to save time and increase productivity. JER has introduced a video learning service to help employees develop their skills and grow.

PROMOTING WOMEN'S ACTIVE PARTICIPATION

JER formulated a general employer action plan under the Act on the Promotion of Female Participation and Career Advancement in the Workplace in April 2021 and has been implementing the plan.

None of JER's line managers were women in FY2021. Now, 18.2% of line managers are women.

In July 2022, JER achieved the highest, three-star, Eruboshi certification program rating. The Eruboshi certification is given by the Minister of Health, Labour and Welfare to companies with excellent conditions for the promotion of women.



ENCOURAGING MALE EMPLOYEES TO TAKE CHILDCARE LEAVE

JER has declared that 100% of its eligible male employees will take childcare leave and it is encouraging them to take childcare leave.

JER introduced a month of special paid leave in FY2023. In addition to leave, JER encourages employees to work remotely and works to create an environment where employees can balance work and childcare.



DIVERSITY EDUCATION

In FY2022, JER provided Ikuboss training for managers and diversity training for all officers and employees. Through training, JER worked to deepen understanding of work styles suited to the different stages of life that people experience. LGBTQ people held a lecture to promote understanding of diversity.



RESPONDING TO CLIMATE CHANGE

JER approaches its environmental conservation activities by operating an environmental management system under its Environmental Policy. JER has identified (1) appropriate use of electricity, (2) appropriate use of paper, and (3) appropriate disposal of waste as priority management items, and is pursuing a number of measures to reduce its environmental impact. Specifically, we are working on energy conservation, resource conservation and recycling of resources by promoting paperless operations, reducing the amount of copier paper used, saving electricity, and promoting green purchasing.

JER also introduced Toyota Motor Corporation's new fuel cell vehicle (FCV), the Mirai, in July 2021. Mirai has been called the "ultimate eco-car" because it does not emit carbon dioxide, a cause of global warming, and because it runs on a motor powered by a "fuel cell" that uses hydrogen as fuel and generates electricity through a scientific reaction with oxygen in the air.



JER began measuring greenhouse gas emissions in FY2021 in order to understand the environmental impact of its business activities. We will continue our efforts to realize a low-carbon society by curbing and reducing greenhouse gas emissions. We will also contribute to achieving the goals of the SDGs through our environmental conservation activities.

CONTRIBUTING TO LOCAL COMMUNITIES AND SOCIETY



VOLUNTEER ACTIVITIES

JER participates in Hanasaku Machikado Volunteers in Chuo-ku and plants and grows plants in a flowerbed in front of the head office. JER contributes to the creation of beautiful, clean streets with flowers and greenery. JER has a volunteer leave system that enables employees to take a month of leave maximum to conduct social contribution activities.



ENCOURAGING THE ACQUISITION OF DISASTER PREVENTION EXPERT QUALIFICATIONS

JER encourages employees to acquire disaster prevention expert qualifications to develop personnel who are conversant in disaster prevention and crisis management and thereby enhance its ability to handle contingencies as an earthquake reinsurance company and to contribute to improving society's disaster prevention capabilities as an entity engaging in local disaster prevention. Approximately 60% of all officers and employees have acquired disaster prevention expert qualifications.

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)	
		2021 (As of March 31, 2022)	2022 (As of March 31, 2023)
		Amount	Amount
Cash and deposits		193,688	150,263
Deposits		193,688	150,263
Call loans		42	361
Monetary receivables bought		17,999	38,999
Securities		457,705	452,280
Government bonds		25,898	12,176
Municipal bonds		95,870	82,066
Corporate bonds		303,916	323,820
Foreign securities		32,020	33,052
Other securities		-	1,164
Tangible fixed assets		46	215
Buildings		20	19
Other tangible fixed assets		26	196
Intangible fixed assets		89	294
Software		87	293
Other intangible fixed assets		1	1
Other assets		19,449	18,643
Reinsurance accounts receivable		19,090	18,200
Accounts receivable		5	6
Uncollected income		236	283
Deposits		45	45
Suspense payments		71	27
Derivatives		-	79
Total assets		689,022	661,059

(LIABILITIES)

Item	Fiscal Year	(Yen in millions)	
		2021 (As of March 31, 2022)	2022 (As of March 31, 2023)
		Amount	Amount
Underwriting funds		664,942	646,152
Outstanding claims		144,276	2,822
Underwriting reserves		520,665	643,330
Entrusted reserves		16,748	9,906
Other liabilities		7,434	8,087
Reinsurance accounts payable		5,227	5,266
Income taxes payable		371	390
Deposits payable		3	2
Accrued amounts payable		484	729
Derivatives		1,346	1,699
Reserve for retirement benefits		128	142
Reserve for directors' retirement benefits		7	11
Reserve for bonus payments		22	24
Reserves under the special law		0	0
Reserve for price fluctuation		0	0
Net unrealized gains on available-for-sale securities of earthquake insurance		(1,792)	(4,769)
Total liabilities		687,492	659,557

(NET ASSETS)

Item	Fiscal Year	(Yen in millions)	
		2021 (As of March 31, 2022)	2022 (As of March 31, 2023)
		Amount	Amount
Common stock		1,000	1,000
Retained earnings		547	547
Legal reserve of retained earnings		1	1
Other legal reserve of retained earnings		546	546
Special reserves		17	17
Special price fluctuation reserves		39	39
Retained earnings carried forward		489	490
Treasury Stock		(5)	(5)
Total shareholders' equity		1,541	1,542
Net unrealized gains on available-for-sale securities		(12)	(40)
Total valuation and translation adjustments		(12)	(40)
Total net assets		1,529	1,501
Total liabilities and net assets		689,022	661,059

Notes for fiscal 2022

1. Matters relating to accounting policies are as follows.

- (1) Appraisal standards and method of securities and method of indication are as follows.
 - (i) Available-for-sale securities are 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 writ-

ten 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.

(Changes in accounting policies)

We have applied "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) from the beginning of the fiscal year 2022. In accordance with the transitional treatment set forth in Paragraph 27-2 of "Implementation Guidance on Accounting Standard for Fair Value Measurement," the Company has prospectively applied the new accounting policy prescribed by "Implementation Guidance on Accounting Standard for Fair Value Measurement." There is no effect on the financial statements.

2. Financial instruments, fair value of financial instruments, and breakdown by input level.

(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 value of financial instruments and breakdown by input level

The following table presents the amounts shown on the balance sheet and fair value breakdown by input level as of March 31, 2023. Cash and deposits, call loans, and monetary receivables are omitted because they are settled in a short period of time and their fair values are similar to their book values.

The fair value of financial instruments are classified into the following three levels based on the observability and materiality of the inputs used in the fair value calculation:

Level 1: Fair value measured by the market price of the asset or liability in active markets among the observable inputs

Level 2: Fair value measured by the observable inputs other than the Level 1 inputs

Level 3: Fair value measured by unobservable inputs

If multiple inputs are used with a significant impact on the fair value measurement, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input.

Financial instruments recorded at fair value on the balance sheet

Category	(Yen in millions)			
	Balance sheet amount			
	Level 1	Level 2	Level 3	Total
Securities				-
Available-for-sale securities	-	452,280	-	452,280
Government bonds	-	12,176	-	12,176
Municipal bonds	-	82,066	-	82,066
Corporate bonds	-	323,820	-	323,820
Foreign securities	-	33,052	-	33,052
Other securities	-	1,164	-	1,164
Derivatives (*)				
Derivatives not subject to hedge accounting	-	(1,619)	-	(1,619)
Foreign currency	-	(1,619)	-	(1,619)

(*) Derivative assets and liabilities arising from derivative transactions included in Other assets and Other liabilities are presented on a net basis. Net debts are shown in parentheses.

Note 1: Description of the valuation techniques and inputs used in the fair value measurement

Securities

Government bonds, municipal bonds, corporate bonds and foreign securities are valued using market prices. The market prices are not considered to be market prices on active markets and are categorized within Level 2.

The investment trusts whose market prices are not available do not have any important restrictions on withdrawal or repurchase requests (considered to be risk) for which market participants may request payment. The NAV of the investment trusts is thus deemed to be the fair value and they are categorized within Level 2.

Derivatives

Since derivative transactions are OTC transactions and no published market prices are available, the fair value is measured using discounted cash flow analysis according to the type of transaction and the remaining maturity. The main inputs used in the valuation technique are interest rates and exchange rates. Fair value that can be measured without using unobservable inputs or that has little impact is categorized within level 2.

- Taxes are included when preparing accounts for consumption tax and other items.
- 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.
- The accumulated depreciation of tangible fixed assets is 103 million yen and the advanced depreciation of tangible fixed assets is 2 million yen.
- See below for a breakdown of outstanding claims.

(Yen in millions)	
Outstanding claims (before the deduction of outstanding reinsurance claims)	7,093
Outstanding reinsurance claims related to the above claims	4,270
Net outstanding claims	2,822

- Total deferred tax assets amount to 2,564 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 2,393 million yen, unpaid business taxes of 85 million yen, a reserve for retirement benefits of 39 million yen and unpaid special business tax of 23 million yen.
- 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.
- Net assets per share are 755.24 yen. The basis for this calculation is that net assets are 1,501 million yen, net assets accrued from ordinary shares are 1,501 million yen and the number of ordinary shares at the end of the term is 1,988 million.
- Each amount is rounded down to the nearest whole unit.

2. Statements of Income

Item	(Yen in millions)	
	Fiscal Year	2021 (from April 1, 2021 to March 31, 2022)
	Amount	Amount
Ordinary income	254,971	413,488
Underwriting income	252,930	410,599
Net premiums written	252,468	268,987
Investment income on savings premiums	462	158
Reversal of outstanding claims	-	141,454
Investment income	2,040	2,864
Interest and dividend income	594	778
Gains on sales of securities	144	290
Foreign exchange gains	1,763	1,951
Other investment income	0	2
Transfer of investment income on savings premiums	(462)	(158)
Other ordinary income	-	24
Ordinary expenses	254,970	413,487
Underwriting expenses	251,456	409,015
Net claims paid	150,088	207,758
Loss adjustment expenses	13,270	20,934
Commissions and brokerage fees	55,111	57,657
Provision of outstanding claims	25,695	-
Provision of underwriting reserves	7,291	122,664
Investment expenses	1,662	2,489
Losses on sales of securities	207	272
Losses on derivatives	1,439	2,200
Other investment expenses	15	16
Operating, general and administrative expenses	1,828	1,982
Other ordinary expenses	22	-
Interest expenses	22	-
Ordinary income (loss)	1	0
Extraordinary income	2	-
Other extraordinary income	2	-
Extraordinary losses	2	0
Provision of reserve for price fluctuation	0	0
Other extraordinary losses	2	-
Net income (loss) before income taxes	1	0
Income taxes	0	0
Total income taxes	0	0
Net income (loss)	1	0

Notes for fiscal 2022

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

(Yen in millions)	
Premiums written:	348,427
Reinsurance premiums ceded:	79,440
Net premiums written:	268,987

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

(Yen in millions)	
Claims paid:	290,066
Reinsurance claims recovered:	82,307
Net claims paid:	207,758

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)	(146,150)
Provision of outstanding reinsurance claims related to the above claims	(4,695)
Net provision of outstanding claims	(141,454)

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

(Yen in millions)	
Deposits:	6
Call loans:	0
Monetary receivables bought:	2
Securities:	768
Total:	778

5. Paper profit/loss involved in the losses on derivatives is a loss of 1,619 million yen.

6. Net income per share is 0.12 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 54.56%. The difference is explained by the following breakdown: valuation reserve 20,389.19% and exclusion from gross revenue of reversal of taxable risk reserves related to publicity expenses (20,452.79%).

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

3. Statements of Cash Flow

(Yen in millions)			
Item	Fiscal Year	2021	2022
		(from April 1, 2021 to March 31, 2022)	(from April 1, 2022 to March 31, 2023)
		Amount	Amount
Cash flow from operating activities			
Net income (loss) before income taxes		1	0
Depreciation		74	86
Increase (decrease) in outstanding claims		25,695	(141,454)
Increase (decrease) in underwriting reserves		7,291	122,664
Increase (decrease) in entrusted reserves		(9,214)	(6,841)
Increase (decrease) in reserve for retirement benefits		(22)	13
Increase (decrease) in reserve for directors' retirement benefits		(2)	4
Increase (decrease) in reserve for bonus payments		(0)	1
Increase (decrease) in reserve for price fluctuation		0	0
Interest and dividend income		(594)	(778)
Losses (gains) on investment in securities		62	(18)
Foreign exchange losses (gains)		(1,711)	(1,625)
Decrease (increase) in other assets (other than investment and financial activities related)		(1,627)	932
Increase (decrease) in other liabilities (other than investment and financial activities related)		468	283
Others		274	291
Subtotal		20,695	(26,439)
Interest and dividends received		1,319	1,190
Income taxes paid		(0)	(0)
Net cash provided by operating activities		22,014	(25,249)
Cash flow from investing activities			
Purchase of monetary receivables bought		(22,998)	(30,997)
Proceeds from sales and redemption of monetary receivables bought		19,999	18,999
Purchase of securities		(187,139)	(123,001)
Proceeds from sales and redemption of securities		93,440	126,604
Total investment assets activities		(96,699)	(8,395)
Total operating activities and investment assets activities		(74,685)	(33,644)
Acquisition of tangible fixed assets		(7)	(198)
Others		(36)	(262)
Net cash provided by investing activities		(96,744)	(8,856)
Cash flow in financing activities			
Effect of exchange rate changes on cash and cash equivalents			
		-	-
Net increase (decrease) in cash and cash equivalents		(74,729)	(34,105)
Cash and cash equivalents at the beginning of the year		199,430	124,700
Cash and cash equivalents at the end of the year		124,700	90,594

Notes for fiscal 2022

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, 2022)	(As of March 31, 2023)
Cash and deposits	193,688	150,263
Call loans	42	361
Monetary receivables bought	17,999	38,999
Securities	457,705	452,280
Deposits of a depository period over three months	(79,030)	(79,030)
Monetary receivables bought other than cash equivalents	(7,999)	(19,999)
Securities other than cash equivalent	(457,705)	(452,280)
Cash and cash equivalents	124,700	90,594

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 2021 (from April 1, 2021 to March 31, 2022)

(Yen in millions)

	Shareholder's equity							Valuation and translation adjustments:		Total net assets	
	Common stock	Legal reserve of retained earnings	Other legal reserve of retained earnings			Total retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities		Total valuation and translation adjustments
			Special reserves	Special price fluctuation reserves	Retained earnings carried forward						
Balance at the beginning of the period	1,000	1	17	39	488	546	(5)	1,540	(1)	(1)	1,538
Changes during the period											
Net income (loss)					1	1		1			1
Net changes other than shareholders' equity									(10)	(10)	(10)
Total changes					1	1		1	(10)	(10)	(8)
Balance at the end of the period	1,000	1	17	39	489	547	(5)	1,541	(12)	(12)	1,529

Fiscal 2022 (from April 1, 2022 to March 31, 2023)

(Yen in millions)

	Shareholder's equity							Valuation and translation adjustments:		Total net assets	
	Common stock	Legal reserve of retained earnings	Other legal reserve of retained earnings			Total retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities		Total valuation and translation adjustments
			Special reserves	Special price fluctuation reserves	Retained earnings carried forward						
Balance at the beginning of the period	1,000	1	17	39	489	547	(5)	1,541	(12)	(12)	1,529
Changes during the period											
Net income (loss)					0	0		0			0
Net changes other than shareholders' equity									(28)	(28)	(28)
Total changes					0	0		0	(28)	(28)	(27)
Balance at the end of the period	1,000	1	17	39	490	547	(5)	1,542	(40)	(40)	1,501

Notes for fiscal 2022

- 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 2021	Increase in fiscal 2022	Decrease in fiscal 2022	Balance as of the end of fiscal 2022
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, 2023)

Established:	May 30, 1966
Capital:	1 billion yen
Total assets:	661.0 billion yen
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