



# ANNUAL REPORT 2010

Introduction to Earthquake Reinsurance in Japan

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## MESSAGE FROM THE PRESIDENT



Chairman:  
Shozo Wakabayashi

President:  
Hideo Suzuki

We are delighted to introduce to the readers of this annual report a detailed disclosure of the current situation and activities of the Company.

Japan Earthquake Reinsurance Co., Ltd. was founded in 1966 as the only company in Japan permitted to exclusively handle reinsurance for earthquake insurance on dwelling risks. For more than 40 years since then, we have been underwriting the dwelling risk of earthquakes in Japan in alliance with the Japanese government and non-life insurance companies. As the core entity in this sector, we have not only been committed to bolstering and upgrading the system of our reinsurance payment, but also to providing our best care to managing and operating the assets that support the system.

Since last year, Samoa, Haiti, and Chile have each experienced massive earthquakes of seven to eight magnitudes, causing extensive damage. In association with the Chilean earthquake, a serious tsunami warning was issued in Japan for the first time in 17 years, affecting people on the coast, some of whom were evacuated for many hours. Although there were no major temblors in Japan, there were an earthquake with its seismic center in Suruga Bay, an earthquake with its epicenter to the east of the Izu Peninsula, and an earthquake centered in the sea around the main island of Okinawa.

With rising public awareness of earthquake insurance in these circumstances, the number of earthquake insurance contracts increased steadily, and reaching 12.27 million at the end of March 2010, partly reflecting reductions in earthquake insurance premiums and the expansion of tax deductions for earthquake insurance premiums from income.

In asset management, the Company achieved a profit despite the appreciation of the yen. As a result, total assets of the Company stood at 1,092.2 billion yen.

Given the increasingly important roles and responsibilities in the earthquake insurance system, we must be even more prudent in our management approach. In these circumstances, we will play an active role in enhancing and developing the earthquake insurance system and will address challenges such as refining our expertise in earthquake insurance operations, bolstering our asset management and risk management, and improving our business continuity plan.

We have prepared this annual report to provide our stakeholders with insight into the current situation and activities of the Company. We welcome any comments or opinions.

July 2010

Hideo Suzuki  
President  
Japan Earthquake Reinsurance Co., Ltd.

# 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 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 sector 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 buy 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 buy earthquake insurance.

\* Non-life insurance is divided into two groups: insurance in the household risks field taken out by individuals to cover various risks in the home, and insurance in the corporate risks field taken out by companies to cover various company's risks. The same distinction applies to earthquake insurance. Insurance taken out by individuals is called earthquake insurance on dwelling risks, and the other insurance is called as earthquake insurance for companies. The Law concerning Earthquake Insurance targets at earthquake insurance on dwelling risks.



## 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 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 for a building\*\* and ¥10 million 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, 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.

Insurable objects	Degree of loss	Amount of insurance claim paid
Residential buildings, personal property	Total loss	100% of amount insured (up to the current price* of the insurable objects)
	Half loss	50% of amount insured (up to 50% of the current price of the insurable objects)
	Partial loss	5% of amount insured (up to 5% of the current price of the insurable objects)

## AUTHORIZATION CRITERIA OF LOSSES

Total loss, half loss or partial loss applies to any of the following cases:

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 not totally or half lost although it was flooded above the floor level or above 45 cm or higher from the ground level.	From 10% to less than 30% of the current price of the personal property

## CASES WHEN NO INSURANCE CLAIM IS PAYABLE:

- Loss or damage due to willful acts or gross negligence or violation of law
- Loss or damage due to war or insurrection
- Loss or damage occurring ten days or more after the earthquake
- Loss or theft of the objects of the insurance

## WHEN A NON-LIFE INSURANCE COMPANY BECOMES INSOLVENT:

With respect to the earthquake insurance, the Non-life Insurance Policy-holders Protection Corporation of Japan will pay the insurance benefit on behalf of a bankrupt company with a 100% indemnity rate.

\* 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 5,500 billion yen as revised in April 2008 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 Non-Life Insurance Rating Organization of Japan\*\* on the basis of the Law concerning Non-Life 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 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*

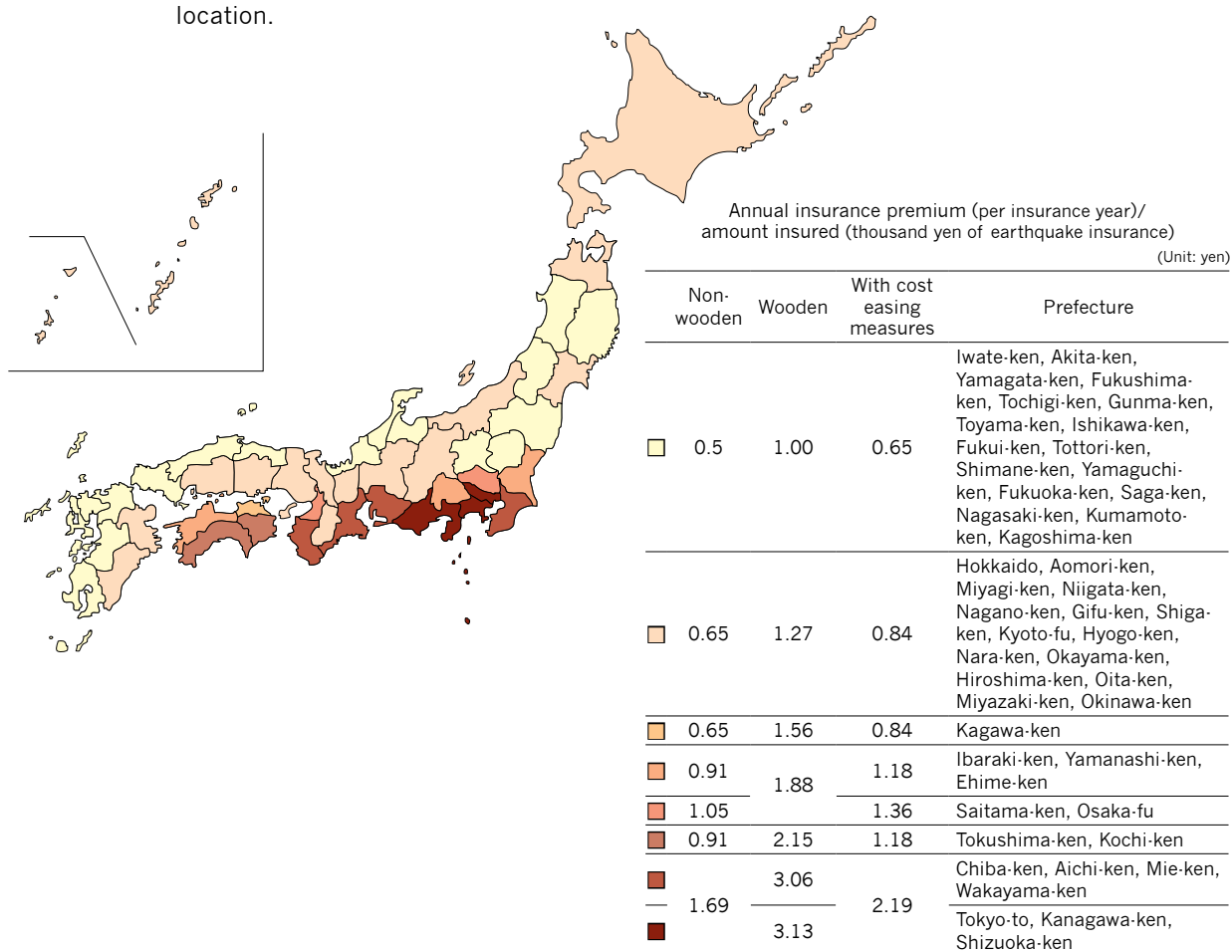
The Law concerning Earthquake Insurance stipulates that the limit to the total insurance claims payable by the government and private insurance company per earthquake, etc.. For details, see p.12 Insurance liabilities held by JER, non-life insurance companies and the government.

\*\* *Non-Life Insurance Rating Organization of Japan*

An organization established in accordance with the Law concerning Non-Life Insurance Rating Organizations, which aims to provide a fair basis premium rate applicable to non-life insurance.

## BASIC RATE (APPLICABLE TO BUILDINGS AND PERSONAL PROPERTY)

The basic rate 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.



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 (number of epicenters: about 730,000 epicenter model) used in the preparation of the maps that are assumed to have the potential to cause damage in the future.

\* 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 Probabilistic Seismic Hazard Map was revised in July 2010.





## 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	30%
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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%	20%	30%

#### \* 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 Section 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

### (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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## 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:

(Basic rate – discount rate) x applicable coefficient = premium rate of a long-term contract.

Contract period	2 years	3 years	4 years	5 years
Coefficient	1.90	2.75	3.60	4.45

\* *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 capacity*

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



### An example of insurance premiums calculated

A wooden residential building constructed in January 2000 in Hyogo-ken:  
 Fire insurance (principal contract) amount insured: Building 20 million yen; personal property 6 million yen

1. 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: 6 million yen x 50% = 3 million yen
2. Confirming the premium rate applicable: Hyogo-ken, wooden → 1.27
3. Confirming the discount rate applicable: Building constructed in and after June 1981 → 10%

$$\begin{array}{rcccl}
 \text{Earthquake insurance premium} & & \text{Earthquake} & \text{Earthquake insurance} & \text{Discount rate} \\
 \text{on residential building} & = & \text{amount insured} & \text{premium rate} & \\
 & & 10,000 & 1.27 & (100\% - 10\%) \\
 & & \text{(1,000 yen)} & & \underbrace{\hspace{2cm}} \\
 & & & & 1.14 \\
 & & & & \times \\
 & & & & = 11,400 \text{ (yen)}
 \end{array}$$

$$\begin{array}{rcccl}
 \text{Earthquake insurance premium} & & \text{Earthquake} & \text{Earthquake insurance} & \text{Discount rate} \\
 \text{on personal property} & = & \text{amount insured} & \text{premium rate} & \\
 & & 3,000 & 1.27 & (100\% - 10\%) \\
 & & \text{(1,000 yen)} & & \underbrace{\hspace{2cm}} \\
 & & & & 1.14 \\
 & & & & \times \\
 & & & & = 3,420 \text{ (yen)}
 \end{array}$$

\* 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.

We reinsure 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.

### Treaty A

#### **Reinsurance by JER for non-life insurance companies**

*JER has entered into a reinsurance contract with non-life insurance companies operated in Japan. According to the contract, the non-life insurance companies conclude a reinsurance contract with JER on the earthquake insurance contracts in full underwritten by them in accordance with the Law concerning Earthquake Insurance. JER takes up the full liability for this earthquake insurance without fail.*

### Treaty B

#### **Retrocession by JER on non-life insurance companies**

*JER enters into a reinsurance contract individually with the non-life insurance companies, and retrocedes to each company part of the insurance liability taken up by JER to the limit as determined according to the balance of earthquake insurance risk reserves and other factors.*

### Treaty C

#### **Retrocession by JER on the government (Excess of loss reinsurance)**

*JER has entered into an excess of loss reinsurance with the government on earthquake insurance for a loss exceeding the amount payable by JER, according to which JER retrocedes to the government part of insurance liability taken up according to Treaty A to the indemnity limit as approved by the Diet.*



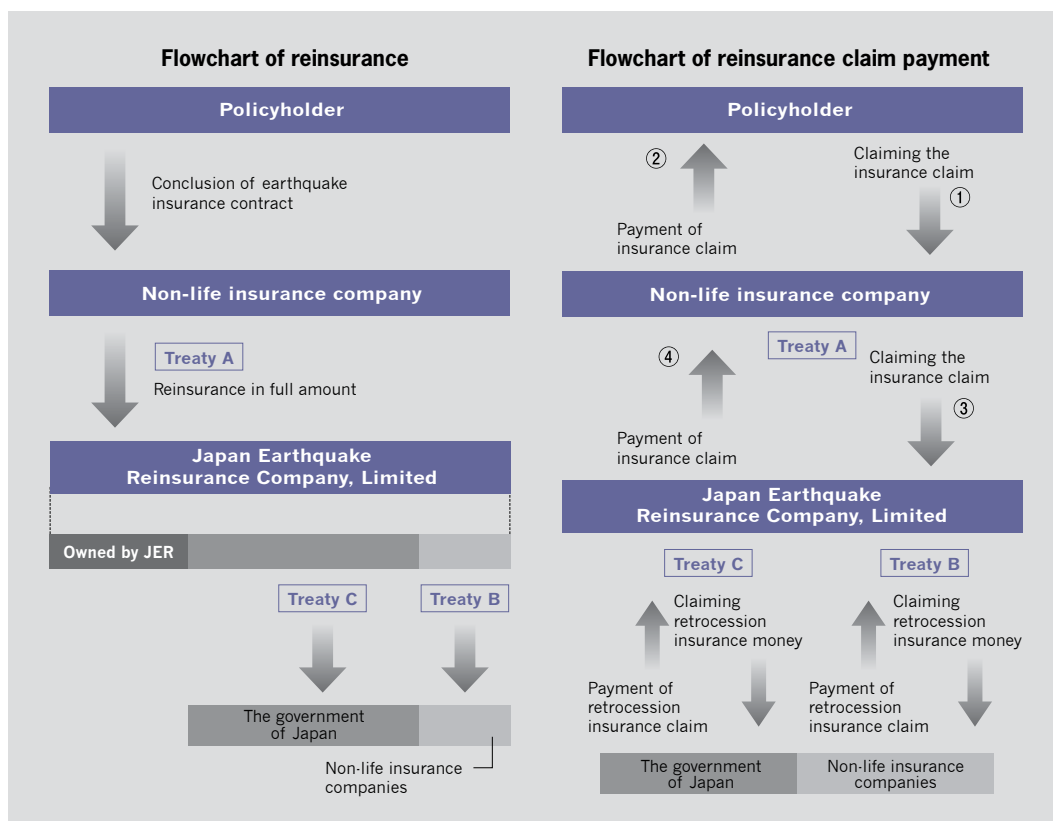
## MECHANISM OF PAYMENT OF INSURANCE CLAIMS

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-life 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.

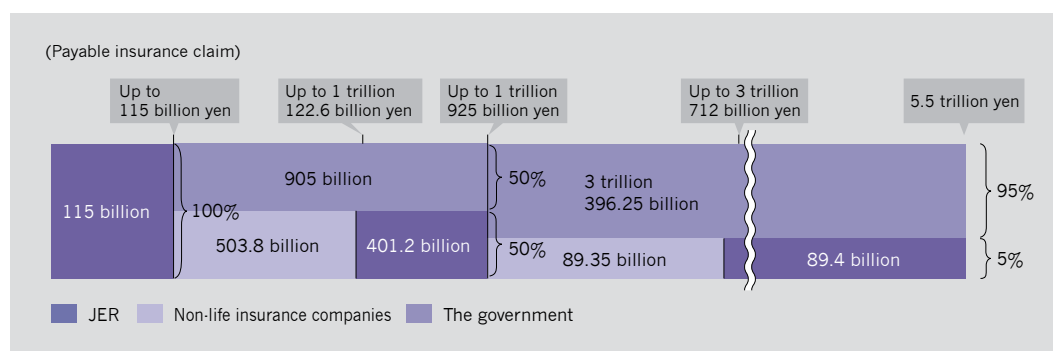
## FLOWCHART OF REINSURANCE OF EARTHQUAKE INSURANCE



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

The following is the reinsurance scheme, showing how JER, non-life insurance companies and the government share insurance liabilities, and the way each handles the shared liabilities.  
Revised as follows on April 1, 2009.

### REINSURANCE SCHEME



### LIABILITY LIMIT

JER	605.60 billion yen
Non-life insurance companies	593.15 billion yen
The government	4,301.25 billion yen
<b>Total</b> (limit amount of payable insurance claims)	<b>5.50 trillion yen</b>



### THE BALANCE OF RISK RESERVES AT JER AND NON-LIFE INSURANCE COMPANIES AND THE GOVERNMENT LIABILITY RESERVES AT THE END OF FISCAL 2009

JER and non-life insurance companies save the risk premium of insurance premiums paid by policyholders as earthquake insurance risk reserves for the possible payment of earthquake insurance claims while the government saves government reserves in the earthquake insurance special account under law. 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	496.7 billion yen
Non-life insurance companies	524.3 billion yen
The government	1,270.8 billion yen
<b>Total</b>	<b>2,291.9 billion yen</b>

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

### 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	Portion over 115 billion yen, and up to 1,925 billion yen			Total
	Portion up to 115 billion yen	Portion over 115 billion yen, and up to 1,925 billion yen	Portion over 1,925 billion yen, and up to 2,000 billion yen	
A person of burden				
JER	115.0	401.2	—	516.2
Non-life insurance companies	—	503.8	3.75	507.55
The government	—	905.0	71.25	976.25
<b>Total</b>	<b>115.0</b>	<b>1,810.0</b>	<b>75.0</b>	<b>2,000.0</b>

# STATISTICS

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

Earthquake	No. of households (A) (1,000 households)	No. of contracts (B) (1,000 contracts)	Amount insured (million yen)	Percentage of households with insurance (B/A) (%)	Probability that an earthquake could occur within the next 30 years
Great Kanto earthquake	23,589	6,328	52,686,764	26.83	Nearly 0% - 1%
Earthquake with an epicenter directly below metropolitan Tokyo	16,647	4,581	37,588,171	27.52	About 70%
Tokai earthquake	22,431	6,270	52,094,508	27.95	87% (reference value)
Tonankai earthquake	21,266	5,500	46,023,637	25.86	About 60% - 70%
Nankai earthquake	28,969	7,125	59,822,819	24.60	About 60%

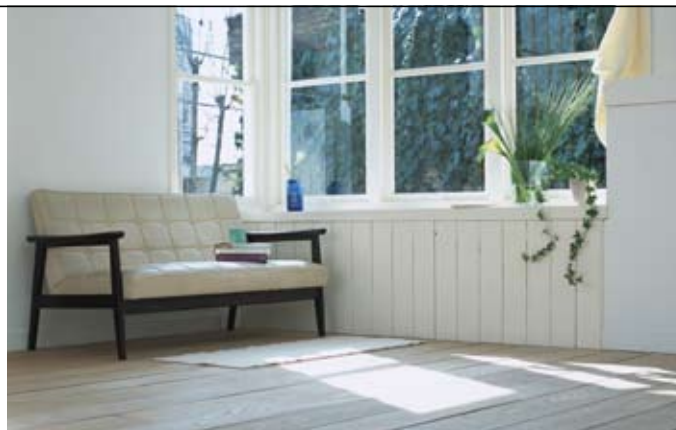
Note: The probability that an earthquake could occur within the next 30 years is based on the 2010 version of the National Seismic Hazard Maps for Japan of the Headquarters for Earthquake Research Promotion of the Japanese government. The probability of an earthquake with an epicenter directly below metropolitan Tokyo refers to an earthquake with magnitude of about 7 that could occur in southern Kanto.

## REINSURANCE CLAIMS PAID IN FISCAL 2009

Reinsurance claims paid in fiscal 2009 amounted to 5,544 million yen, including earthquake reinsurance claims paid to cover the Surugawan Earthquake that occurred in 2009. In terms of numbers, 9,901 claims were paid (on the basis of insurance policies). See below for major claims paid per earthquake.

Earthquake	Date of occurrence	Magnitude	No. of policies	Reinsurance claims paid (million yen)
1. Surugawan Earthquake	August 11, 2009	6.5	8,244	4,508
2. Izuhanto Toho-oki Earthquake	December 17, 2009	5.1	363	299
3. Iwate-Miyagi Nairiku Earthquake	June 14, 2008	7.2	398	217
Other earthquakes	—	—	896	518
Total	—	—	9,901	5,544

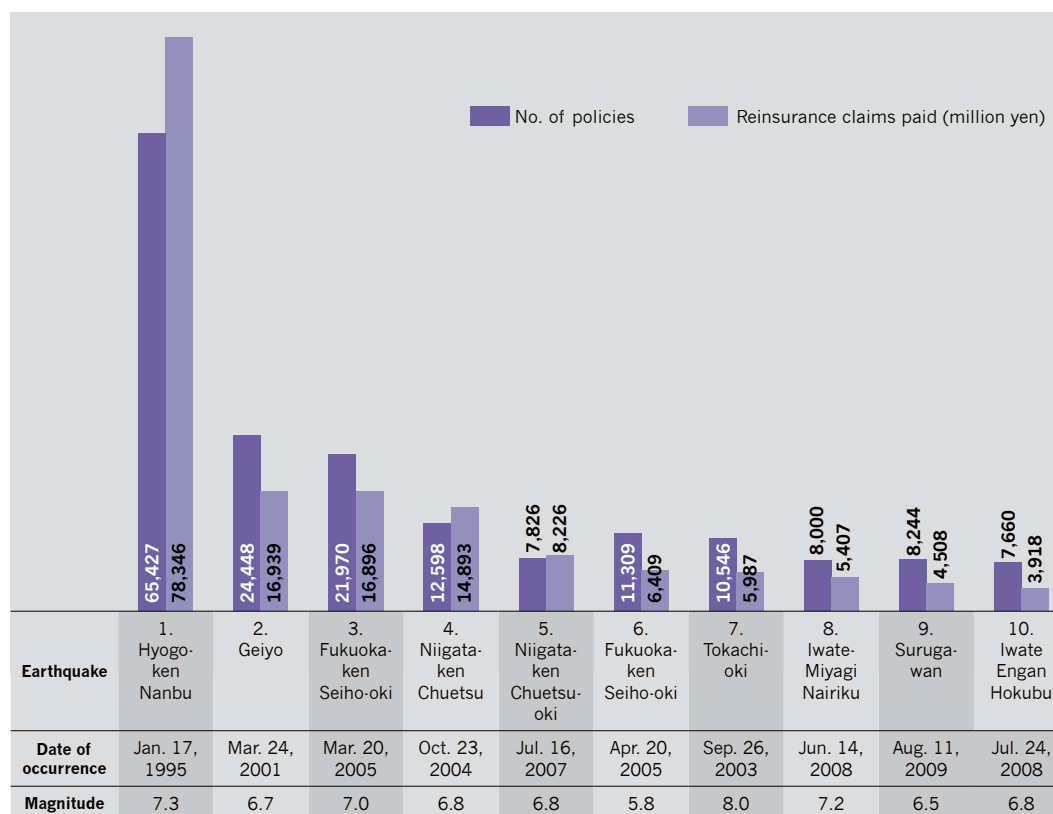




## TOP TEN EARTHQUAKES AS TO REINSURANCE CLAIMS PAID

See the table below for the top ten earthquakes with respect to reinsurance claims paid since the earthquake insurance was established.

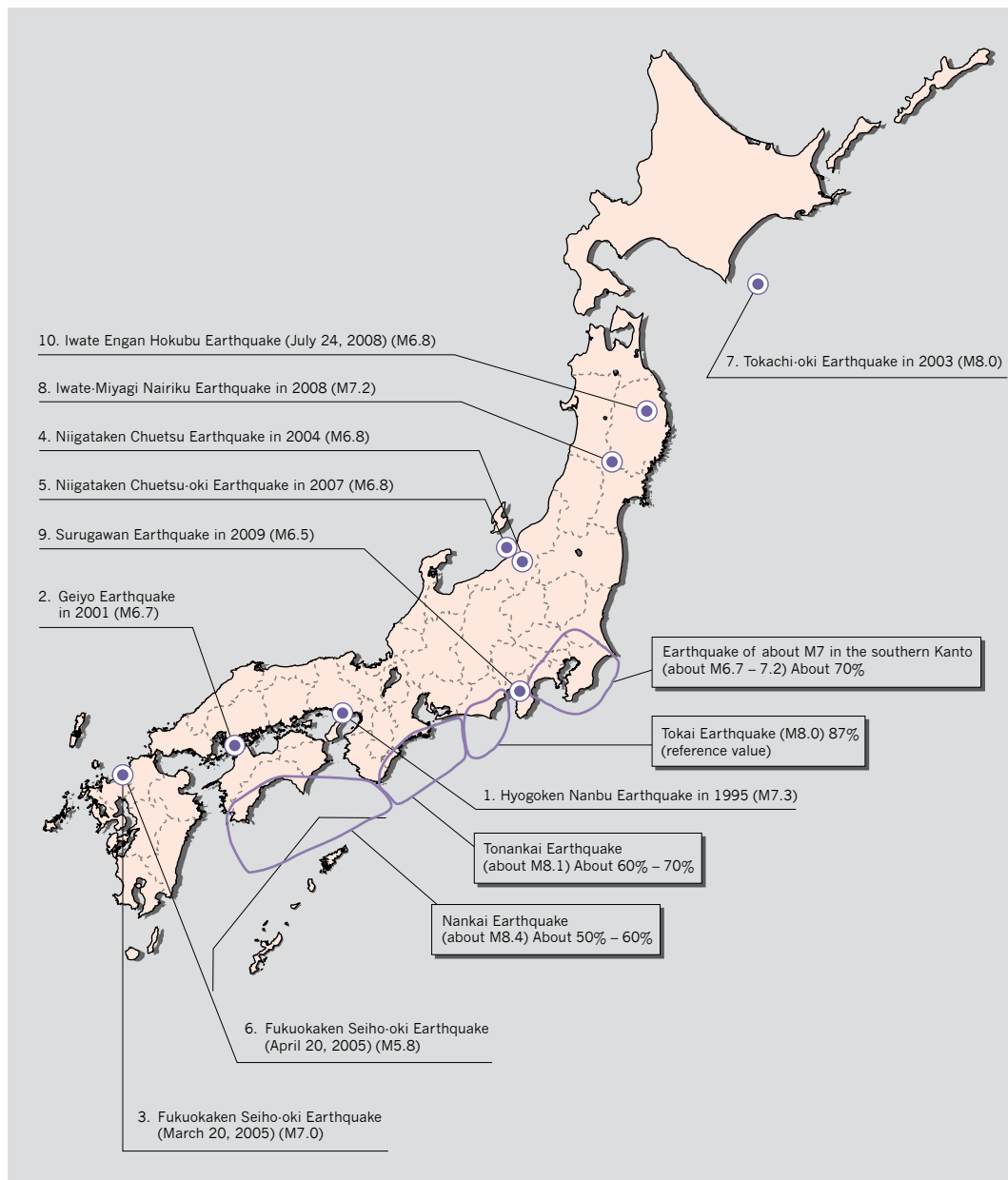
(As of March 31, 2010)



Note: Insurance claims worth 78,346 million yen were paid to cover the Hyogoken-Nanbu Earthquake. Of these claims, the government paid 6,173 million yen, JER 40,000 million yen and the non-life insurance companies 32,173 million yen according to the reinsurance scheme in force at the time.

Below are the epicenters and magnitudes of the top 10 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 Tokai earthquake, the Tonankai earthquake and the Nankai earthquake could occur within the next 30 years announced by the Headquarters for Earthquake Research Promotion of the government are also included.

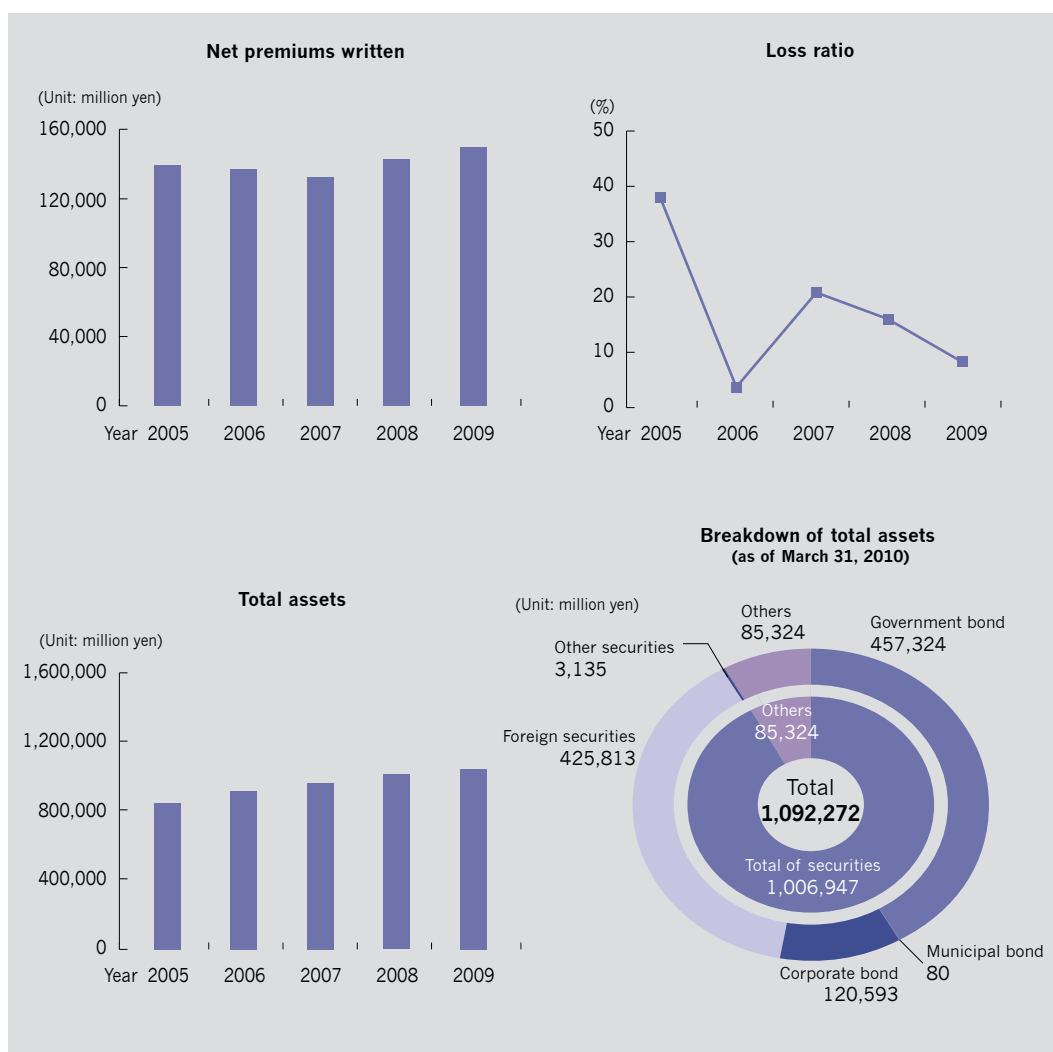




# JAPAN EARTHQUAKE REINSURANCE CO., LTD.

## FINANCIAL HIGHLIGHTS

Although assumed net premiums written and net premiums written in fiscal 2009 declined from the previous year, total assets increased steadily to 1,092.2 billion yen at the end of March 2010. Most of the assets under management are invested in bonds with high credit ratings and liquidity to prepare for the payment of reinsurance claims.





(Unit: Million yen)

Fiscal Year	2005	2006	2007	2008	2009
Net premiums written	71,132	67,981	64,040	67,126	72,225
Loss ratio	37.9%	3.7%	21.0%	16.0%	8.6%
Underwriting income	91,001	72,451	67,320	70,546	79,278
Ordinary profit	23	143	16	200	951
Net income	36	△16	4	12	5
Solvency-margin ratio	160.2%	175.3%	185.4%	159.1	161.6
Total shareholders' equity	1,605	1,600	1,614	1,617	1,633
Total assets	838,555	908,963	955,968	1,015,053	1,092,272
Net unrealized gains on other securities	△5	5	15	6	16
Net unrealized gains on other securities of earthquake insurance	△9,054	△4,540	1,722	3,063	16,154

## 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.

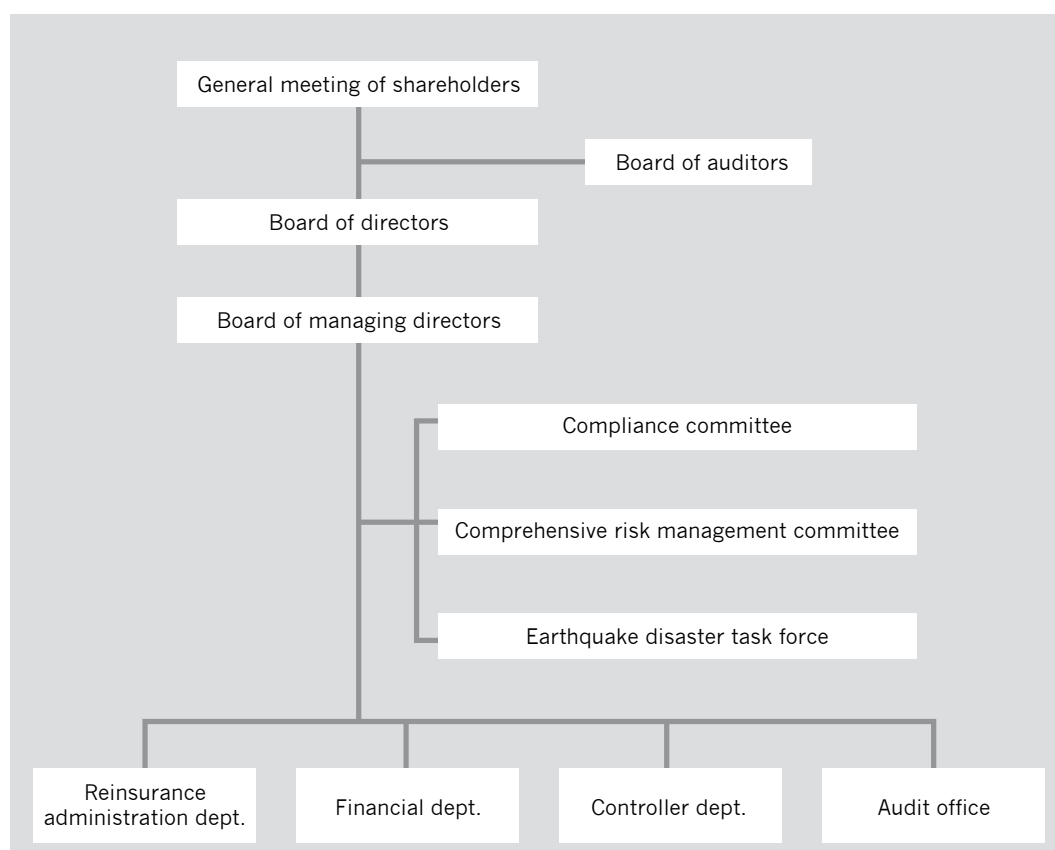
## TOP 10 SHAREHOLDERS

(As of March 31, 2010)

Shareholder	No. of shares owned (1,000 shares)	Percentage of shares owned (%)
Tokio Marine & Nichido Fire Insurance Co., Ltd.	537	26.9
Mitsui Sumitomo Insurance Co., Ltd.	338	16.9
Sompo Japan Insurance Inc.	321	16.1
NIPPONKOA Insurance Co., Ltd.	208	10.4
Aioi Insurance Co., Ltd.	153	7.7
The Fuji Fire and Marine Insurance Co., Ltd.	123	6.2
Nissay Dowa General Insurance Co., Ltd.	102	5.1
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

## ORGANIZATION

(As of April 1, 2010)





## DIRECTORS (FULL-TIME)

(As of July 1, 2010)

Post	Name
Chairman (representative director)	Shozo Wakabayashi
President (representative director)	Hideo Suzuki
Managing director (representative director)	Masayuki Hashimoto
Managing director (representative director)	Koichi Kubota
Corporate auditor	Terumasa Hasegawa

## RESPONDING TO MAJOR EARTHQUAKES

Our most important role is to pay reinsurance claims promptly and properly in the event of a major earthquake. We are provided therefore with a standing task force against earthquake disasters, consisting of full-time directors and managerial staff, and conduct annual drills to bolster our system for major earthquakes. We also carefully manage and operate our assets, with a focus on liquidity and safety in mind. See below for details.

### TASK FORCE AGAINST EARTHQUAKE DISASTERS AND ITS ACTIVITIES

The committee is a standing in-house organization drawn from across JER. It prepares an annual plan, according to which it is the first responder, and implements training such as reinsurance claim payment drills, along with the inspection and maintenance of an emergency manual for use in the event of an assumed major earthquake.

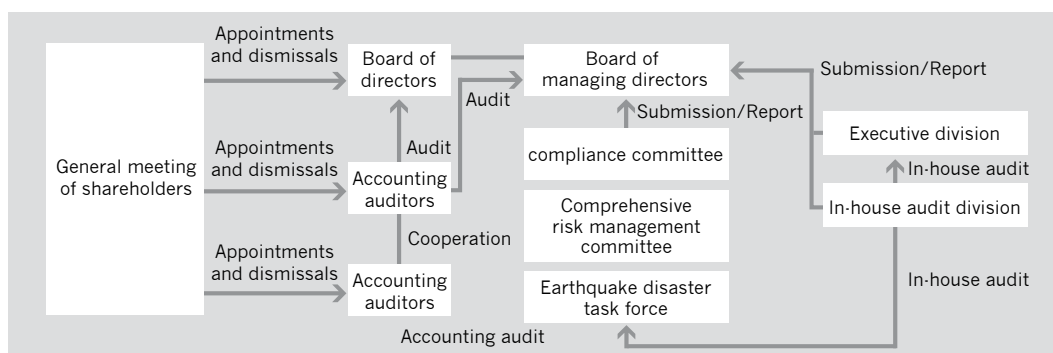
The Company set up a review team under the earthquake disaster task force in fiscal 2009, which began to review the emergency manual for business continuity. We also conducted an operation drill to confirm safety and information transmission systems and organized an emergency training program at the *Jishin-no Gakushukan* (earthquake study center) of the *Meguro-ku Bosai Center* (Meguro disaster prevention center).

### OPERATION BASED ON HIGHLY LIQUID ASSETS

Should a destructive inland earthquake strike Tokyo, we would have to pay a tremendous amount of reinsurance claims in a short period of time. For this reason, we always hold mainly highly liquid and high-rating securities. To reduce cost-related risks at the time of realization, we hold mainly medium-term securities.

# CORPORATE GOVERNANCE

## IN-HOUSE GOVERNANCE SYSTEM



## COMMITTEE-BASED OPERATION

We have established a Compliance Committee and a Comprehensive Risk Management Committee and positioned them under the direct control of the Board of Managing Directors. Our aim is to ensure sound and transparent business operations by strengthening the supervisory function with the construction of compliance and risk management systems. Preparing for a natural calamity, the Company is provided with a task force against natural disasters to facilitate the payment of insurance claims and maintain the funding plan for payment, enabling it to take prompt action in response to large-scale earthquake disasters.

The annual operation policy and operating conditions of each committee is periodically reported to the Board of Managing Directors and Board of Directors.

## AUDITING AND INSPECTION SYSTEMS

### OUTSIDE AUDITING AND INSPECTION

The overall management and operations of the Company are subject to inspection by the Financial Services Agency under the Insurance Business Act and inspection by the Ministry of Finance under the Act on Earthquake Insurance.

We also receive an accounting audit by an auditing corporation in accordance with the Companies Act.

### IN-HOUSE AUDITING

Apart from the audit conducted by corporate auditors under the Companies Act, the Audit office conducts in-house audits.

The purpose of an in-house audit is to develop and establish an internal control system. This is done by conducting an audit to examine and evaluate the execution of plans and activities in the Company fairly and objectively, and from the standpoint of lawfulness and rationality. It also requires providing the necessary advice and recommendations based on the evaluation, contributing to the sound development of the company and building credibility in the community.

In fiscal 2010, we decided based on the "In-House Audit Policy and Plan" adopted by resolution of the Board of Directors to focus on audits of responses to the revision of the insurance inspection





manual and to conduct regular audits of the internal control conditions of all divisions. Audit results including recommendations of corrections and improvements are reported to the Board of Managing Directors and the Board of Directors and communicated to audited divisions.

## **RISK MANAGEMENT SYSTEM**

The construction of an appropriate risk management system is an important issue to ensure the safety and soundness of management, as surrounding risks are becoming increasingly complicated and diversified.

We have been endeavoring to accurately understand and appropriately manage risks by establishing a comprehensive risk control committee to supervise risk management. We have also consolidated the risk management system to reinforce the risk control function.

## **DEALING WITH ASSETS MANAGEMENT RISKS**

Risk management relating to asset management is carried out primarily for paying reinsurance claims promptly and with certainty when there are major earthquakes, in accordance with the risk management policy of each year. Major items are as follows:

### *Market risks*

We measure the responsiveness to interest rates and currency exchanges and value at risk (VaR), and calculate the amount of loss due to a heavy change in interest or exchange rate to limit the volume of risks.

### *Credit risks*

When purchasing securities, we limit the issuers to those with high credibility with reference to the credit rating made by rating agencies. We always check securities held to determine credibility, and conduct individual controls to avoid a concentration on a specific group of companies or type of business.

### *Liquidity risks*

We check individual securities in advance for cashing, and to the assets for cashing.

## **DEALING WITH PAPERWORK ISSUES**

We constantly examine the rules and regulations of authority and paperwork procedures and manuals for exact and perfect paperwork. We also regularly check the rules and regulations through in-house auditing for conformity with related laws and regulations.

## **DEALING WITH SYSTEM RISKS**

We constantly review the risk control plan with an emphasis on system security in the event of a calamity. This will improve the control system.

## Financial Section

### Financial Review

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

#### Indicators Showing Results for the Last Three Fiscal Years

#### Accounting Concepts

1. Financial statements
2. Risk management credits
3. Present conditions of loans involving trust with contact for replacement of losses
4. Credit obligations based on debtor classification
5. Conditions of solvency-margin ratio
6. Information on market prices  
(acquisition cost or contract cost, market price and appraisal profit and loss) and others

## FINANCIAL REVIEW

**The number of earthquake insurance contracts increased during the year under review, as they did in the previous year. Premiums written also rose from the previous year, backed by factors such as a higher level of interest in earthquake insurance and a lower premium rate. The number and amount of earthquake insurance payouts declined from the previous year, despite insurance payouts for the Surugawan Earthquake in 2009.**

**Profits from investments increased from the previous year, reflecting a rise in the ratio of foreign currency-denominated bonds, which offset the appreciation of the yen.**

**Administrative expenses remained flat from the previous year as a result of a commitment to achieve efficient business operations and cut costs as operations expanded.**

### (1) Summary of earthquake insurance results

a. Premiums written and insurance claims paid Net premiums written amounted to 72.2 billion yen (up 7.6% year on year), reflecting an increase in the number of insurance contracts and premiums written.

Earthquake insurance claims paid came to 5.5 billion yen (down 40.7% year on year) due to the Surugawan Earthquake in 2009.

### b. Underwriting reserves

Risk reserves added amounted to 42.4 billion yen (up 19.0% year on year), the total of net premiums written of 36.4 billion yen, given by deducting assumed insurance commissions from net premiums written, and a profit of 6 billion yen from investments.

Risk reserves at the end of the current term were 496.7 billion yen (up 8.0% year on year), reflecting the drawing of 5.8 billion yen from risk reserves in the past year following the payment of ongoing insurance claims, the provision of outstanding claims, as well as advertising and publicity expenses.

Underwriting reserves at the end of the current term totaled 585.8 billion yen (up 7.4% year on year) after adding unearned premium reserves and refunded reserves to the risk reserves.

### c. Entrusted reserves

Risk reserves of direct insurance companies recorded as entrusted reserves were 524.3 billion yen for the current term (up 5.4% year on year), obtained by adding net premiums written and profit from investments of 27.9 billion yen (up 15.8% year on year), and drawing advertising and publicity expenses of 900 million yen.

### (2) Outline of investments

Medium- to long-term domestic interest rates rose in the first half of the fiscal year, reflecting rises in interest rates in the United States and concerns about the supplementary issuing of Japanese government bonds. However, the interest rates fell thereafter after the Bank of Japan hammered out policy to step up its relaxed monetary policy to deal with protracted deflation. Long-term interest rates at the end of the fiscal year under review were mostly on a par with the levels at the end of the previous fiscal year, and medium-term interest rates declined sharply.

The yen appreciated against both the dollar and euro, reflecting forecasts that monetary easing by central banks in Europe and the United States would be protracted, and moves to avoid risk given the bad-debt problem related to government-affiliated companies in Dubai and the fiscal crisis in Greece. Compared with a year ago, the yen had appreciated about five yen against both the dollar and euro at the end of the fiscal year under review.

In the circumstances, we invested in assets with the top priority placed on security and liquidity, followed by profitability. We did this by raising the ratio of foreign currency-denominated bonds, primarily safe issues with government guarantees, to mitigate exchange fluctuation risks. As a result, pre-tax profits from investments amounted to 7.0 billion yen in the business account and 5.3 billion yen in the entrusted reserves account. Consequently, investment assets at the end of the term under review stood at 1,071.2 billion yen.

### (3) Current profit and loss

Net income was 5 million yen (down 58.9% year on year) after calculating interest and dividend income to capital account and other items.

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

(Unit: Million yen)

Division	Fiscal Year	2005	2006	2007	2008	2009
Net premiums written (percentage change over the previous term)		71,132 (22.2%)	67,981 (△4.4%)	64,040 (△5.8%)	67,126 (4.8%)	72,225 (7.6%)
Ordinary incomes (percentage change over the previous term)		107,868 (50.1%)	90,373 (△16.2%)	81,290 (△10.1%)	84,993 (4.6%)	99,464 (17.0%)
Ordinary expenses (percentage change over the previous term)		107,845 (50.3%)	90,229 (△16.3%)	81,273 (△9.9%)	84,792 (4.3%)	98,512 (16.2%)
Ordinary profit (percentage change over the previous term)		23 (△76.4%)	143 (521.1%)	16 (△88.5%)	200 (1,108.8%)	951 (374.2%)
Net income (percentage change over the previous term)		36 (243.6%)	△16 (△146.4%)	4 (-)	12 (184.1%)	5 (△58.9%)
Common stock (sum of shares issued)		1,000 (2 mil. shares)	1,000 (2 mil. shares)	1,000 (2 mil. shares)	1,000 (2 mil. shares)	1,000 (2 mil. shares)
Net assets		1,605	1,600	1,614	1,617	1,633
Total assets		838,555	908,963	955,968	1,015,053	1,092,272
Underwriting reserves (percentage change over the previous term)		450,892 (8.4%)	490,901 (8.9%)	515,586 (5.0%)	545,255 (5.8%)	585,820 (7.4%)
(of the balance, risk reserve balance) (percentage change over the previous term)		378,731 (6.4%)	412,364 (8.9%)	433,841 (5.2%)	460,081 (6.0%)	496,708 (8.0%)
Loans (percentage change over the previous term)		- (-)	- (-)	- (-)	- (-)	- (-)
Securities (percentage change over the previous term)		771,383 (5.1%)	851,739 (10.4%)	895,513 (5.1%)	953,118 (6.4%)	1,006,947 (5.6%)
Solvency-margin ratio		160.2%	175.3%	185.4%	159.1%	161.6%
Dividend propensity		-%	-%	-%	-%	-%
No. of employees		21	21	24	28	26

**Note:**

Order to specify divisions, provided for in Section 2, Article 132, Insurance Business Law, our solvency-margin ratio is not supposed to be used as a criterion to enable the administrative authorities to trigger an order for improvement.

**We conduct no trust business.**

## INDICATORS SHOWING RESULTS FOR THE LAST THREE FISCAL YEARS

### ① Indicators showing the main business results

#### 1. Net premiums written

Item: earthquake

(Unit: Million yen)

Division	Fiscal Year	2007	2008	2009
Premiums written		142,811	145,445	151,353
Return premiums		3,349	3,241	2,464
Assumed net premiums written (A)		138,086	141,271	148,349
Reinsurance premiums ceded (B)		74,045	74,145	76,123
Net premiums written (A-B)		64,040	67,126	72,225

**Note:**

- 1: Return premiums: Return premiums of receiving reinsurance.
- 2: Assumed net premiums: Produced by deducting return premiums from receiving premiums.
- 3: Net premiums written: Produced by deducting paid reinsurance premium ceded from assumed net premiums written.

#### 2. Underwriting profit

(Unit: Million yen)

Division	Fiscal Year	2007	2008	2009
Underwriting incomes		67,320	70,546	79,278
Underwriting expenses		66,860	69,884	77,828
Operating and general administrative expenses		459	474	509
Other incomes and expenses		-	△187	△941
Underwriting profit		-	-	-

**Note:**

- 1: The above operating, general and administrative expenses are those relating to the underwriting of insurances mentioned in the operating, general and administrative expenses in a statement of profits and losses.
- 2: Other incomes and expenses are those equivalent to corporate taxes mentioned in a statement of earthquake insurance profits and losses.

### 3. Net claims paid

Item: earthquake

(Unit: Million yen)

Division	Fiscal Year	2007	2008	2009
Assumed net claim paid (A)		12,370	9,350	5,544
Reinsurance claims recovered (B)		-	-	-
Net claims paid (A-B)		12,370	9,350	5,544

**Note:**

- 1: Assumed net claims paid: Produced by deducting surrender value from ceded insurance money paid.
- 2: Net claims paid: Produced by deducting reinsurance claims recovered by ceded contract from assumed net claims paid.

### ② Indicators relating to insurance contracts

#### 1. Loss ratio, net expense ratio and their combined ratio

(Unit: Million yen)

Division	Fiscal Year	2007	2008	2009
Loss ratio		21.0%	16.0%	8.6%
Underwriting expenses		29,198	29,897	31,381
Insurance related operating, general and administrative expenses		(459)	(474)	(509)
Agency commissions and brokerage fees		(28,739)	(29,423)	(30,872)
Net expense ratio		45.6%	44.5%	43.4%
Combined ratio		66.6%	60.5%	52.0%

**Note:**

- 1: Loss ratio: (Net claims paid + loss adjustment expenses) ÷ net premiums written
- 2: Net expense ratio: (Agency commissions and brokerage fees + Insurance related operating and general administrative expenses) ÷ net premiums written
- 3: Combined ratio: Loss ratio + net expense ratio

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

Division	Fiscal Year	2007	2008	2009
Domestic contract		100%	100%	100%

#### 3. No. of reinsurers that ceded insurance contracts and top five reinsurers for ceded reinsurance premiums

	2008	2009
No. of reinsurers that ceded insurance contracts	17	17
Rate of top five reinsurers' ceded insurance premiums	77.5	77.5

**Note:**

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

**There are no notes about unearned claims paid.**

**There are no notes about the rate of damage occurrence, the expenses ratio and rate of sum total before ceded insurance deduction.**

**The ratio of ceded insurance premiums by rating does not apply to earthquake insurance.**

**We pay no contractor dividend.**

### ③ Indicators relating to accounting

#### 1. Amounts of outstanding claims and underwriting reserves

(Unit: Million yen)

Division	Year	As of the end of fiscal 2007	As of the end of fiscal 2008	As of the end of fiscal 2009
Outstanding claims		178	228	420
Underwriting reserves		515,586	545,255	585,820
Total		515,765	545,484	586,241

#### 2. Detailed listing of liability reserves

##### As of the end of Fiscal 2008

(Unit: Million yen)

Division	Balance as of the end of fiscal 2007	Amount of increase in fiscal 2008	Amount of decrease in fiscal 2008	Balance as of the end of fiscal 2008
Reserve for ordinary bad debts	-	-	-	-
Reserve for individual bad debts	-	-	-	-
Reserve for specific foreign securities	-	-	-	-
Accrued severance benefits	94	18	9	102
Reserve for directors' retirement allowances	13	4	8	9
Reserve for bonus payment	17	19	17	19
Reserve for price fluctuation	8	-	0	7
Total	133	42	36	139

##### As of the end of Fiscal 2009

(Unit: Million yen)

Division	Balance as of the end of fiscal 2008	Amount of increase in fiscal 2009	Amount of decrease in fiscal 2009	Balance as of the end of fiscal 2009
Reserve for ordinary bad debts	-	-	-	-
Reserve for individual bad debts	-	-	-	-
Reserve for specific foreign securities	-	-	-	-
Accrued severance benefits	102	21	13	110
Reserve for directors' retirement allowances	9	4	0	13
Reserve for bonus payment	19	18	19	18
Reserve for price fluctuation	7	-	0	7
Total	139	44	34	150

### 3. Detailed listing of shareholders' equity

#### As of the end of Fiscal 2008

(Unit: Million yen)

Division	Balance as of the end of fiscal 2007	Amount of increase in fiscal 2008	Amount of decrease in fiscal 2008	Balance as of the end of fiscal 2008
Common stock	1,000	-	-	1,000
Issued stock	Ordinary stock (2 mil. stock)	1,000	-	(2 mil. stock) 1,000
	Total (2 mil. stock)	1,000	-	(2 mil. stock) 1,000
Legal reserve of retained earnings and voluntary reserves	Legal reserve of retained earnings	1	-	1
	Voluntary reserves			
	Special reserves	17	-	17
	Special price fluctuation reserves	39	-	39
Total	57	-	-	57

**Note:**

The number of owned shares was 11,400 as of the end of fiscal 2008.

#### As of the end of Fiscal 2009

(Unit: Million yen)

Division	Balance as of the end of fiscal 2008	Amount of increase in fiscal 2009	Amount of decrease in fiscal 2009	Balance as of the end of fiscal 2009
Common stock	1,000	-	-	1,000
Issued stock	Ordinary stock (2 mil. stock)	1,000	-	(2 mil. stock) 1,000
	Total (2 mil. stock)	1,000	-	(2 mil. stock) 1,000
Legal reserve of retained earnings and voluntary reserves	Legal reserve of retained earnings	1	-	1
	Voluntary reserves			
	Special reserves	17	-	17
	Special price fluctuation reserves	39	-	39
Total	57	-	-	57

**Note:**

The number of owned shares was 11,400 as of the end of fiscal 2009.

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

(Unit: Million yen)

Division	Fiscal Year	2007	2008	2009
Personnel expenses		391	474	378
Non personnel expenses		1,397	1,673	1,085
Taxes		177	185	197
Agency commissions and brokerage fees		28,739	29,423	30,872
Total		30,706	31,757	32,534

**Note:**

Business expenses are the total of loss adjustment expense, operating, general and administrative expenses, agency commissions and brokerage fees as shown in the income statement.

### 5. Profit on sale of securities by category

(Unit: Million yen)

Division	Fiscal Year	2007	2008	2009
Government bonds		597	27	7
Foreign securities		-	-	574
Total		597	27	582

### 6. Loss on sale of securities by category

(Unit: Million yen)

Division	Fiscal Year	2007	2008	2009
Government bonds		4	6	329
Foreign securities		66	-	232
Total		70	6	562

### 7. Securities appraisal loss by category

(Unit: Million yen)

Division	Fiscal Year	2007	2008	2009
Government bonds		-	-	-
Foreign securities		-	-	-
Total		-	-	-

### 8. Depreciation expenses by category

#### As of the end of Fiscal 2008

(Unit: Million yen)

Type of asset	Acquisition cost	Amount of depreciation in fiscal 2008	Aggregated depreciations	Balance as the end of fiscal 2008	Rate of aggregated depreciations %
Tangible fixed assets					
Buildings	100	2	58	41	58.5
(for underwriting)	(100)	(2)	(58)	(41)	(58.5)
(for investment)	(-)	(-)	(-)	(-)	(-)
Others	86	27	48	37	56.1
Total	186	29	107	79	57.4
Intangible fixed assets					
Software	175	16	23	151	13.7
Other intangible fixed assets	0	0	0	0	86.0
Total	175	16	24	151	13.9
Grand total	362	45	131	230	36.3

#### As of the end of Fiscal 2009

(Unit: Million yen)

Type of asset	Acquisition cost	Amount of depreciation in fiscal 2009	Aggregated depreciations	Balance as the end of fiscal 2009	Rate of aggregated depreciations %
Tangible fixed assets					
Buildings	101	2	61	40	60.0
(for underwriting)	(101)	(2)	(61)	(40)	(60.0)
(for investment)	(-)	(-)	(-)	(-)	(-)
Others	95	20	68	26	72.2
Total	196	23	129	67	65.9
Intangible fixed assets					
Software	409	60	75	334	18.4
Other intangible fixed assets	0	0	0	0	86.9
Total	410	60	75	334	18.4
Grand total	607	83	205	401	33.8

## 9. Loss from disposal of fixed assets

(Unit: Million yen)

Division	Fiscal Year	2007	2008	2009
Land		(-)	(-)	(-)
Buildings		(0)	(-)	(0)
Other tangible fixed assets		(0)	(0)	(-)
Total		0	0	0

No mention is made about the level of underwriting reserves because there is no target contract.

Mention about fluctuations of ordinary profit or written loss over the increase in the loss ratio is omitted because insurance claims are offset by the disposition of underwriting reserves.

There are no notes about the loan write-off and profit from property and equipment.

## 4 Special deposit premium account

Nothing is to be mentioned.

## 5 Earthquake insurance underwriting reserves by category

(Unit: Million yen)

Division	Year	As of the end of fiscal 2007	As of the end of fiscal 2008	As of the end of fiscal 2009
Risk reserve		433,841	460,081	496,708
Unearned premium reserve		79,695	83,366	87,453
Repayment reserve		2,050	1,808	1,659
Total		515,586	545,255	585,820

## 6 The conditions at the end of the current fiscal year (runoff result) of outstanding claims (estimated amount) at the beginning of the term do not apply to earthquake insurance.

## 7 The amount of estimated final damages associated with the elapse of a period from the occurrence of accidents does not apply to earthquake insurance.

## 8 Investments

### 1. Investments policy

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

### 2. Investments in outline

#### Deposits

(Unit: Million yen)

Division	Year	As of the end of fiscal 2007	As of the end of fiscal 2008	As of the end of fiscal 2009
Deposits		31,077	24,275	22,352
(Ordinary deposit)		(6,777)	(1,475)	(2,052)
(Time deposit)		(24,300)	(22,800)	(20,300)

#### Total assets and investments assets

(Unit: Million yen)

Division	Fiscal Year	2007	2008	2009
		Percentage distribution (%)	Percentage distribution (%)	Percentage distribution (%)
Deposits	31,077	3.3	24,275	2.4
Call loans	-	-	8,819	0.9
Monetary receivable bought	499	0.0	-	-
Money trusts	13,723	1.4	13,495	1.3
Securities	895,513	93.7	953,118	93.9
Buildings	38	0.0	41	0.0
Total of investments assets	940,851	98.4	999,749	98.5
Total assets	955,968	100.0	1,015,053	100.0

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

(Unit: Million yen)

Division	Fiscal Year	2007	2008	2009
		Yield	Yield	Yield
Deposits	215	0.67	236	0.76
Call loans	-	-	27	0.29
Monetary receivables bought	7	0.76	3	0.87
Money trusts	94	0.69	91	0.66
Securities	12,894	1.49	13,956	1.52
Buildings	-	-	-	-
Total	13,211	1.45	14,315	1.47

#### Note:

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

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

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

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

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

(Unit: Million yen)

Division	Fiscal Year	2008			2009		
		Amount of numerator	Amount of denominator	Yield on working assets (%)	Amount of numerator	Amount of denominator	Yield on working assets (%)
Deposits		236	31,183	0.76	219	35,819	0.61
Call loans		27	9,481	0.29	11	16,691	0.07
Bond trading with repurchase agreement		-	-	-	-	-	-
Monetary receivables bought		3	448	0.87	-	-	-
Commodity securities		-	-	-	-	-	-
Money trusts		273	13,750	1.99	△72	13,750	△0.52
Securities		13,977	918,528	1.52	17,011	967,658	1.76
Public and corporate bonds		5,804	618,392	0.94	5,372	542,992	0.99
Stocks		-	-	-	-	-	-
Foreign securities		8,149	290,325	2.81	11,968	415,507	2.88
Other securities		23	9,810	0.24	△329	9,158	△3.6
Loans		-	-	-	-	-	-
Buildings		-	42	-	-	42	-
Financial derivative		△7,711	-	-	△4,223	-	-
Others		△31	-	-	△66	-	-
Total		6,774	973,434	0.70	12,879	1,033,962	1.25

##### Note:

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

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

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

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

(Unit: Million yen)

Division	Fiscal Year	2008			2009		
		Amount of numerator	Amount of denominator	Yield on working assets (%)	Amount of numerator	Amount of denominator	Yield on working assets (%)
Deposits		236	31,183	0.76	219	35,819	0.61
Call loans		27	9,481	0.29	11	16,691	0.07
Bond trading with repurchase agreement		-	-	-	-	-	-
Monetary receivables bought		3	448	0.87	-	-	-
Commodity securities		-	-	-	-	-	-
Money trusts		45	13,723	0.33	124	13,495	0.92
Securities		15,531	920,302	1.69	29,921	970,987	3.08
Public and corporate bonds		7,083	620,291	1.14	8,113	546,170	1.49
Stocks		-	-	-	-	-	-
Foreign securities		8,626	290,353	2.97	22,047	416,011	5.30
Other securities		△177	9,658	△1.84	△240	8,805	△2.73
Loans		-	-	-	-	-	-
Buildings		-	42	-	-	42	-
Financial derivative		△7,711	-	-	△4,223	-	-
Others		△31	-	-	△66	-	-
Total		8,101	975,181	0.83	25,986	1,037,036	2.51

##### Note:

Market-price based overall yield: indicator showing the efficiency of operation on a market price basis. The numerator reflects realized profit and loss and fluctuations in market price appraisal while the denominator is market-price based assets.

**Numerator** = (income from operated assets management + investment income on savings premium - expenses for assets management) + (after-tax unrealized gain for the year - after-tax unrealized gain for previous year)\* + fluctuation in deferred hedge profit and loss

**Denominator** = acquisition cost or write-off based average balance + after-tax unrealized gain for previous year of other securities + profit and loss for the previous year related to securities for transaction

\*Based on the amount before tax effect deduction

#### 6. Balance, percentage distribution and yield of Foreign Loans & Investments

(Unit: Million yen)

Division	Year	As of the end of fiscal 2007		As of the end of fiscal 2008		As of the end of fiscal 2009	
		Percentage distribution (%)	Percentage distribution (%)	Percentage distribution (%)	Percentage distribution (%)		
Foreign currency denominated							
Foreign public and corporate bonds		152,411	63.4	221,324	60.0	270,894	63.6
Yen denominated							
Foreign public and corporate bonds		88,003	36.6	147,827	40.0	154,918	36.4
Total		240,414	100.0	369,151	100.0	425,813	100.0
Yield on foreign loans & investment							
Investment assets yield (income yield)		3.28%		2.81%		2.80%	
Assets management (realized yield)		3.25%		2.81%		2.88%	
Market-price based overall yield (for reference)		4.51%		2.97%		5.30%	

##### Note:

1. Of the yield on foreign loans & investments, the investment assets yield was calculated in the same manner as 3., Amount of interest and dividend received and yield on investment assets (income yield) in connection with the assets involving foreign investment.
2. Of the yield on foreign investments, the asset management yield was calculated in the same manner as 4., Asset management yield (realized yield) in connection with the assets involving foreign investment.

#### 7. Balance of securities by category and percentage distribution

(Unit: Million yen)

Division	Year	As of the end of fiscal 2007		As of the end of fiscal 2008		As of the end of fiscal 2009	
		Percentage distribution (%)	Percentage distribution (%)	Percentage distribution (%)	Percentage distribution (%)		
Government bonds		449,201	50.2	412,278	43.3	457,324	45.4
Municipal bonds		4,404	0.5	2,581	0.3	80	0.0
Corporate bonds		191,835	21.4	159,650	16.8	120,593	12.0
Stocks		-	-	-	-	-	-
Foreign securities		240,414	26.8	369,151	38.7	425,813	42.3
Other securities		9,658	1.1	9,456	1.0	3,135	0.3
Loan receivable in securities		-	-	-	-	-	-
Total		895,513	100.0	953,118	100.0	1,006,947	100.0



## 8. Yield on securities held

(Unit: %)

Division	Fiscal Year		
	2007	2008	2009
<b>Investment assets yield (income yield)</b>			
Public & corporate bonds	0.85	0.94	0.99
Stocks	-	-	-
Foreign securities	3.28	2.81	2.80
Other securities	3.06	0.24	-
Total	1.49	1.52	1.76
<b>Assets management yield (realized yield)</b>			
Public & corporate bond	0.93	0.94	0.99
Stocks	-	-	-
Foreign securities	3.25	2.81	2.88
Other securities	4.26	0.24	△3.60
Total	1.55	1.52	1.76
<b>Market-price based overall yield (for reference)</b>			
Public & Corporate bonds	1.58	1.14	1.49
Stocks	-	-	-
Foreign securities	4.51	2.97	5.30
Other securities	1.58	△1.84	△2.73
Total	2.32	1.69	3.08

## 9. Balance Current Maturity of securities by category

As of the end of fiscal 2008

(Unit: Million yen)

Division	Year						Total
	Less than 1 year	1 to less than 3 years	3 to less than 5 years	5 to less than 7 years	7 to less than 10 years	10 years or longer	
Government bonds	56,096	196,100	132,707	-	9,636	17,737	412,278
Municipal bonds	2,501	79	-	-	-	-	2,581
Corporate bonds	43,212	77,355	37,232	409	1,440	-	159,650
Stocks	-	-	-	-	-	-	-
Foreign securities	69,899	139,709	103,025	9,299	47,217	-	369,151
Other securities	-	-	-	-	-	9,456	9,456
Loan receivable in securities	-	-	-	-	-	-	-
Total	171,709	413,245	272,965	9,709	58,295	27,194	953,118

As of the end of fiscal 2009

(Unit: Million yen)

Division	Year							Total
	Up to 1 year	1 over up to 3 years	3 over up to 5 years	5 over up to 7 years	7 over up to 10 years	Over 10 years		
Government bonds	139,800	225,477	36,389	6,344	36,734	12,577	457,324	
Municipal bonds	80	-	-	-	-	-	80	
Corporate bonds	44,528	54,001	20,437	104	1,521	-	120,593	
Stocks	-	-	-	-	-	-	-	
Foreign securities	54,596	219,828	115,466	23,655	12,267	-	425,813	
Other securities	-	-	-	-	-	3,135	3,135	
Loan receivable in securities	-	-	-	-	-	-	-	
Total	239,005	499,307	172,293	30,104	50,523	15,712	1,006,947	

## 10. Tangible fixed assets by breakdown

(Unit: Million yen)

Division	Year		
	As of the end of fiscal 2007	As of the end of fiscal 2008	As of the end of fiscal 2009
Land	-	-	-
(for underwriting)	(-)	(-)	(-)
(for investment)	(-)	(-)	(-)
Buildings	38	41	40
(for underwriting)	(38)	(41)	(40)
(for investment)	(-)	(-)	(-)
Construction in progress	-	-	-
(for underwriting)	(-)	(-)	(-)
(for investment)	(-)	(-)	(-)
Total of property	38	41	40
(for underwriting)	(38)	(41)	(40)
(for investment)	(-)	(-)	(-)
Other tangible fixed assets	53	37	26
Total	91	79	67

There are no notes with respect to the following 11 items:

1. Commodity securities
2. Average balance and sales amount of commodity securities
3. Amount of stocks held by type of business
4. Balance current maturity of loan by remaining life
5. Balance of loans by type of collateral secured
6. Balance and percentage distribution of loan by designated use
7. Balance of loan by industry and its ratio to the total
8. Balance of loan by debtor size and its ratio to the total
9. Amount of loan & investment to public works (on a basis of newly undertaken loan)
10. Housing-related loan
11. Loan interests

# ACCOUNTING CONCEPTS

## 1. Financial statements

### ① Balance sheets

#### (ASSETS)

Item	(Unit: Million yen)			
	2008		2009	
	(As of March 31, 2009)		(As of March 31, 2010)	
Fiscal Year	Amount	Percentage distribution	Amount	Percentage distribution
Cash & deposits	24,275	2.4	22,352	2.0
Deposits	24,275		22,352	
Call loans	8,819	0.9	28,254	2.6
Money trusts	13,495	1.3	13,692	1.3
Securities	953,118	93.9	1,006,947	92.2
Government bonds	412,278		457,324	
Municipal bonds	2,581		80	
Corporate bonds	159,650		120,593	
Foreign securities	369,151		425,813	
Other securities	9,456		3,135	
Tangible fixed assets	79	0.0	67	0.0
Buildings	41		40	
Other tangible fixed assets	37		26	
Intangible fixed assets	151	0.0	334	0.0
Software	151		334	
Other intangible fixed assets	0		0	
Other assets	15,036	1.5	20,547	1.9
Reinsurance balance receivable	8,257		8,628	
Accounts receivable	271		7	
Uncollected income	4,081		5,265	
Deposits	54		54	
Suspense payment	106		119	
Financial derivative	2,264		6,472	
Deferred tax assets	78	0.0	76	0.0
<b>Total assets</b>	<b>1,015,053</b>	<b>100.0</b>	<b>1,092,272</b>	<b>100.0</b>

#### (LIABILITIES)

Item	(Unit: Million yen)			
	2008		2009	
	(As of March 31, 2009)		(As of March 31, 2010)	
Fiscal Year	Amount	Percentage distribution	Amount	Percentage distribution
Underwriting funds	545,484	53.7	586,241	53.7
Outstanding claims	228		420	
Underwriting reserves	545,255		585,820	
Entrusted reserves	446,886	44.0	473,207	43.3
Other liabilities	17,861	1.8	14,885	1.4
Reinsurance balance payable	5,431		5,507	
Corporate taxes payable	294		952	
Deposits payable	3		2	
Accrued amounts payable	609		1,144	
Financial derivative	11,522		7,278	
Accrued severance benefits	102	0.0	110	0.0
Reserves for directors' retirement benefit	9	0.0	13	0.0
Reserves for bonus payment	19	0.0	18	0.0
Price fluctuation reserves	7	0.0	7	0.0
Net unrealized gains on other securities of earthquake insurance	3,063	0.3	16,154	0.5
<b>Total liabilities</b>	<b>1,013,435</b>	<b>99.8</b>	<b>1,090,639</b>	<b>99.9</b>

#### (NET ASSETS)

Item	(Unit: Million yen)			
	2008		2009	
	(As of March 31, 2009)		(As of March 31, 2010)	
Fiscal Year	Amount	Percentage distribution	Amount	Percentage distribution
Common stock	1,000	0.1	1,000	0.1
Retained earnings	617	0.1	622	0.1
Legal reserve of retained earnings	1		1	
Other legal reserve of retained earnings	616		621	
Special reserves	17		17	
Special price fluctuation reserves	39		39	
Retained earnings brought forward	559		564	
Treasury Stock	△5	△0.0	△5	△0.0
<b>Total shareholders' equity</b>	<b>1,611</b>	<b>0.2</b>	<b>1,616</b>	<b>0.1</b>
Net unrealized holding gain on securities	6	0.0	16	0.0
Total valuation and translation adjustments	6	0.0	16	0.0
<b>Total net assets</b>	<b>1,617</b>	<b>0.2</b>	<b>1,633</b>	<b>0.1</b>
<b>Total liabilities and net assets</b>	<b>1,015,053</b>	<b>100.0</b>	<b>1,092,272</b>	<b>100.0</b>

1. Appraisal standards and method of securities, and method of indication
  - (1) Of other securities, those to which the market price is applicable is appraised according to the market price at term end.
  - (2) Of other securities, those to which the market price is not applicable is appraised based on cost or write-off cost price using the moving-average method.
  - (3) 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 an Net unrealized gains on other securities of earthquake insurance in Liabilities, according to the pertinent 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. Appraisal standards and method of money trusts
  - (1) In money trusts exclusively operated centering on securities, the appraisal of securities operated as trust assets is done on the basis of market price.
  - (2) In money trusts exclusively operated with a view to holding securities which is not intended to be operated or held to maturity, the appraisal of securities operated as trust assets is done in the same manner as other securities.
3. The appraisal of derivatives is done on the basis of market price.
4. Although depreciation of tangible fixed assets is calculated using the declining balance method, buildings (excluding equipment attached to buildings) that were acquired on and after April 1, 1998 were depreciated using the straight-line method.
5. Software for in-house use that is recorded as an intangible fixed asset is amortized using the straight-line method over the usable life (five years).
6. The conversion of foreign currency assets and liabilities into Japanese currency is processed according to the accounting standards for foreign currency transactions.
7. Writing standards of reserves
  - (1) Reserve for bad debts
 

Reserves for bad debts are 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 management 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.
  - (2) Reserves for employees' retirement
 

For employees' retirement and severance benefits, reserves is appropriated according to the retirement allowance liabilities at the end of the term and the estimated amount of pension assets. The retirement allowance liabilities is 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.
  - (3) Reserves for directors' retirement benefit
 

For reserves for directors' retirement benefits, the benefits to be paid at the end of the term are recorded according to the relevant in-house rules.
  - (4) Accrued bonuses for employees
 

Accrued bonuses for employees' bonus is calculated according to the standards of estimated bonus payable.
  - (5) Reserves for price fluctuation
 

To prepare for a loss from price changes of shares and others, reserves are appropriated according to Article 115, Insurance Business Law.

8. Financial instruments and fair values of financial instruments

(1) Situation of financial instruments

The Company carries out asset management in preparation for the payment of reinsurance claims, primarily considering soundness, namely, low price fluctuation risks, credit risks, and liquidity risks, and also taking profitability into account. As a result, the financial assets that the Company owns consist primarily of domestic and foreign, high-rated, medium-term bonds. The Company regularly obtains and manages information on fair values and credit information in association with each risk.

Trading in derivatives principally involves foreign exchange forward contracts used to hedge the risks arising from possible changes in exchange rates for bonds in foreign currencies and is kept within the scope of actual demand.

(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, 2010.

(Million yen)			
	Balance sheet amount	Fair value	Difference
(i) Cash and deposits	22,352	22,509	157
(ii) Call loans	28,254	28,254	-
(iii) Money trusts	13,692	13,692	-
(iv) Securities			
Other securities (available for sale)	1,006,947	1,006,947	-
(v) Derivatives*	(806)	(806)	-

\*Derivatives recorded in other assets and other liabilities.

Net receivables or net payables generated from derivatives trading are shown. Figures in parentheses are net payables.

**Note 1: Methods for calculating the fair values of financial instruments**

(i) Cash and deposits

The fair values of deposits without maturities and time deposits whose maturities are within one year of the end of the fiscal year approximate their carrying values and are therefore deemed equal to the carrying values. The fair values of time deposits whose maturities exceed one year are present values estimated by discounting the future cash flows, using interest rates at which similar new time deposits would be made.

(ii) Call loans

Call loans are settled in the short term, and their fair values are therefore deemed equal to their carrying values.

(vi) Money trusts

The fair values of money trusts are determined by prices offered by trust and banking companies.

(iii) Securities

In principle, the fair values of securities are based on their market prices, which are reference prices in the trading statistics of the Japan Securities Dealers Association or market prices obtained from outside vendors or brokers.

(iv) Derivatives

The fair values of derivatives are determined by prices offered by correspondent financial institutions.

9. Taxes are excluded when preparing accounts for consumption tax and other items. However, taxes are included when recording loss adjustment expenses and operating, general and administrative expenses. Consumption taxes and other items for assets that are not subject to deductions are recorded as suspense payments and written down by an equal amount over five years.

10. The risk reserves contained in the underwriting reserves have been deposited based on instructions for the calculation of liability 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.

11. For finance leases commencing before April 1 2008, other than those in which the ownership rights of the leased property are deemed to transfer to the lessee, an accounting method similar to that used for ordinary rental transactions is used.

12. The accumulated depreciation of tangible fixed assets is 129 million yen.

13. Total deferred tax assets amount to 90 million yen, while total deferred tax liabilities come to 9 million yen. The amount deducted from deferred tax assets as a valuation reserve is 4 million yen. The breakdown of deferred tax assets reveals unpaid business taxes of 21 million yen, unpaid special local corporate tax of 14 million yen, a retirement benefit reserve of 40 million yen and a bonus reserve of 6 million yen. The deferred tax liabilities result primarily from an unrealized gain of 9 million yen on securities.

14. Net assets per share are 812.32 yen. The basis for this calculation is that net assets are 1,633 million yen, net assets accrued from ordinary shares are 1,633 million yen and the number of ordinary shares at the end of the term is 1.988 million.

15. The amounts are indicated by rounding down any amount not reaching the unit as mentioned.

## ② Statements of income

(Unit: Million yen)

Item	Fiscal Year	
	2008 (from April 1, 2008 to March 31, 2009)	2009 (from April 1, 2009 to March 31, 2010)
	Amount	Amount
Ordinary incomes	84,993	99,464
Underwriting incomes	70,546	79,278
Net premiums written	67,126	72,225
Investment income on savings premium, etc	3,420	7,052
Investment income	14,445	20,186
Interest and dividend income	14,224	17,222
Profit from operating monetary trust	273	86
Realized gain on sale of securities	27	582
Financial derivative gain	3,267	9,326
Profit from other operations	72	21
Transfer of profit from Investment income on savings premiums	△3,420	△7,052
Other ordinary incomes	2	0
Ordinary expenses	84,792	98,512
Underwriting expenses	69,884	77,828
Net claims paid	9,350	5,544
Loss adjustment expenses	1,391	653
Agency commissions and brokerage fees	29,423	30,872
Provision for outstanding claims	50	192
Provision for underwriting reserves	29,668	40,565
Investment expenses	11,090	14,359
Loss from operating monetary trust	-	158
Realized loss on sale of securities	6	562
Foreign exchange loss	10,979	13,550
Other operation cost	104	88
Operating, general and administrative expenses	942	1,007
Other ordinary expenses	2,875	5,317
Interest paid	2,875	5,317
Other ordinary expenses	0	-
Ordinary profit	200	951
Extraordinary incomes	0	0
Reversal of price fluctuation reserves	0	0
Extraordinary losses	0	0
Loss on disposal fixed assets	0	0
Income before taxes	201	951
Income taxes – current	202	950
Income taxes – deferred	△13	△4
Total income taxes	188	946
Net income	12	5

## Notes for fiscal 2009

1. See below for the net premiums written by breakdown.

Premiums written:	148,349 (million yen)
Reinsurance premiums ceded:	76,123 (million yen)
Net premiums written:	72,225 (million yen)

2. The interests and dividends income are given below by category:

Interest on deposits:	219 (million yen)
Call loans:	11 (million yen)
Interest on securities:	16,991 (million yen)
Total:	17,222 (million yen)

3. Paper profit/loss involved in the financial derivative expenses is a loss of 806 million yen.

4. The net income per share is 2.58 yen.

The basis for this calculation is such that the net income is 5 million yen, the net income accrued from ordinary shares is 5 million yen and the term average No. of ordinary shares amount to 1.988 million.

5. The legal effective tax rate at the end of the term is 36.21%, and the corporate tax burden after applying the tax effect is 99.46%. The difference is explained by the following breakdown: the non-deductible amount of the taxable provision of risk reserves is 67.62%, the amount of the write-off carried from publicity expenses related to risk reserves is △4.56%.

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

### ③ Statements of cash flow

(Unit: Million yen)

Item	Fiscal Year	
	2008 (from April 1, 2008 to March 31, 2009)	2009 (from April 1, 2009 to March 31, 2010)
	Amount	Amount
<b>Cash flow from operating activities</b>		
Net profit before income taxes (△ denotes a loss)	201	951
Depreciation	45	83
Changes in outstanding claims (△ denotes a decline)	50	192
Changes in underwriting reserves (△ denotes a decline)	29,668	40,565
Changes in entrusted reserves (△ denotes a decline)	22,903	26,320
Changes in reserves for employees' retirement and severance benefits (△ denotes a decline)	8	7
Changes in directors' retirement benefit reserves (△ denotes a decline)	△4	4
Changes in accrued bonuses for employees (△ denotes a decline)	2	△1
Changes in reserve for price fluctuation (△ denotes a decline)	△0	△0
Interest and dividend income	△14,224	△17,222
Gain or loss on investment in securities (△ denotes a gain)	△20	△19
Foreign exchange gain or loss (△ denotes a gain)	10,631	5,360
Gain or loss on tangible fixed assets (△ denotes a gain)	0	0
Increase in other assets (other than investment and financial activities related) (△ denotes an increase)	△392	△120
Increase in other liabilities (other than investment and financial activities related) (△ denotes a decline)	180	610
Others	5,662	△8,446
Subtotal	54,713	48,285
Interest and dividends received	13,277	15,664
Income taxes paid	△3	△298
Net cash provided by operating activities	67,987	63,651
<b>Cash flow from investing activities</b>		
Net increase in deposits at bank (△ denotes an increase)	1,500	2,500
Purchase of securities	△325,785	△275,224
Proceeds from sales and redemption of securities	259,489	229,340
Total investment assets activities	△64,795	△43,383
(Total operating activities and investment assets activities)	(3,191)	(20,267)
Acquisition of tangible fixed assets	△17	△11
Others	△156	△243
Net cash used in investing activities	△64,969	△43,639
<b>Cash flow in financing activities</b>		
Effect of exchange rate changes on cash and cash equivalents	-	-
Net change in cash and equivalents	3,017	20,012
Cash and cash equivalents at the begin- ning of the year	7,276	10,294
Cash and cash equivalents at the end of the year	10,294	30,306

#### Notes:

1. Relationship of cash and cash equivalents at the end of the year with the amounts mentioned in the relevant balance sheet item.

	(Unit: Million yen)	
	(As of March 31, 2009)	(As of March 31, 2010)
Cash & deposits	24,275	22,352
Call loans	8,819	28,254
Securities	953,118	1,006,947
Deposits of a depository period of three months or longer	△20,300	△20,300
Securities other than cash equivalent	△953,118	△1,006,947
Cash and cash equivalents	10,294	30,306

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

Item	Fiscal Year	2008	2009
		(from April 1, 2008 to March 31, 2009)	(from April 1, 2009 to March 31, 2010)
		Amount	Amount
<b>Share holder's equity</b>			
<b>Capital stock</b>			
Balance at the end of the previous year		1,000	1,000
Amount of change during the term			
Issuance of new shares		-	-
Total change during the term		-	-
Balance at the end of the fiscal year		1,000	1,000
<b>Earned surplus</b>			
<b>Legal earned reserve</b>			
Balance at the end of the previous year		1	1
Amount of change during the term			
Total change during the term		-	-
Balance at the end of the fiscal year		-	-
<b>Other earned surplus</b>		1	1
<b>Special reserve</b>			
Balance at the end of the previous year			
Amount of change during the term		17	17
Total change during the term			
Balance at the end of the fiscal year		39	39
<b>Special price fluctuation reserves</b>			
Balance at the end of the previous year		-	-
Amount of change during the term		39	39
Total change during the term			
Balance at the end of the fiscal year		546	559
<b>Earned surplus carried forward</b>			
Balance at the end of the previous year		-	-
Amount of change during the term		12	5
Dividend of surplus		12	5
Net income		559	564
Total change during the term			
Balance at the end of the fiscal year		604	617
<b>Total earned surplus</b>			
Balance at the end of the previous year		-	-
Amount of change during the term		12	5
Dividend of surplus		12	5
Net income		617	622
Total change during the term			
Balance at the end of the fiscal year		△5	△5
<b>Treasury stock</b>			
Balance at the end of the previous year		-	-
Amount of change during the term		-	-
Total change during the term		△5	△5
Balance at the end of the fiscal year			
<b>Total share-holders' equity</b>			
Balance at the end of the previous year		1,598	1,611
Amount of change during the term			
Issuance of new shares		-	-
Dividend of surplus		-	-
Net income		12	5
Deposition of treasury stock		-	-
Total change during the term		12	5
Balance at the end of the fiscal year		1,611	1,616

(Unit: Million yen)

Item	Fiscal Year	2008	2009
		(from April 1, 2008 to March 31, 2009)	(from April 1, 2009 to March 31, 2010)
		Amount	Amount
<b>Valuation and translation adjustments</b>			
<b>Net unrealized gains on other securities</b>			
Balance at the end of the previous year		15	6
Amount of change during the term			
Net amount of changes in items other than owners' equity during the term		△9	10
Balance at the end of the fiscal year		△9	10
Total change during the term		6	16
Balance at the end of the fiscal year			
<b>Total valuation and translation adjustments</b>			
Balance at the end of the previous year		15	6
Amount of change during the term			
Net amount of changes in items other than owners' equity during the term		△9	10
Total change during the term		△9	10
Balance at the end of the fiscal year		6	16
<b>Total net assets</b>			
Balance at the end of the previous year		1,614	1,617
Amount of change during the term			
Issuance of new shares		-	-
Dividend of surplus		-	-
Net income		12	5
Deposition of treasury stock		-	-
Net amount of changes in items other than owners' equity during the term		△9	10
Total change during the term		3	15
Balance at the end of the previous year		1,617	1,633

#### 5 Dividend per stock and total assets per employee

(Unit: Million yen)

Division	Fiscal Year		
	2007	2008	2009
Dividend per stock	-	-	-
Net income per stock	2.21 yen	6.30 yen	2.58 yen
Dividend propensity	-	-	-
Net assets per stock	812.01 yen	813.57 yen	821.32 yen
Total assets per employee	39,832	36,251	42,010

#### Notes:

1. Net income per share comes from net income / term average No. of stocks
2. The number of treasury stock is deducted from producing information per stock
3. The total assets per employee come from the total assets at the end of the term / No. of employees at the end of the term.

## 2. Risk management credits

There are no notes about the following five items:

- (1) Currently in bankruptcy
- (2) Delinquent in payments
- (3) Payments more than three months in arrears
- (4) Favorable loan revisions completed
- (5) Total of risk management credit

## 3. Present conditions of loans involving trust with contact for replacement of losses

No notes required.

## 4. Credits obligations based on debtor classification

There are no notes about the following four items:

- (1) Bankrupt or bankrupt for all intents and purposes
- (2) On verge of bankruptcy
- (3) Financial status needs careful monitoring
- (4) Financial status normal

## 5. Conditions of solvency-margin ratio

Division	(Unit: Million yen)	
	Year	
	As of the end of fiscal 2008	As of the end of fiscal 2009
Total of solvency-margin	463,262	506,735
Common stock, etc. (amount obtained by subtracting an estimated outflow to the outside, deferred assets and valuation and translation adjustments from total net assets)	1,611	1,616
Price fluctuation reserve	7	7
Risk reserve	-	-
Catastrophe reserves	460,081	496,708
(A) Reversal for ordinary bad debts	-	-
Variance of estimate for other securities (excluded deductions for Tax Consequences) unrealized gain / loss on securities available for sale	1,562	8,403
Unrealized gain and loss included land holdings	-	-
Funding instruments with a debt-like nature	-	-
Items deductible	-	-
Others	-	-
Total risk	582,221	626,848
$\sqrt{(R1 + R2)^2 + (R3 + R4)^2} + R5 + R6$		
General underwriting risk (R1)	-	-
Underwriting risk in third-area insurance (R2)	-	-
(B) Anticipated Rate of Return Risk (R3)	-	-
Investment risk (R4)	10,805	8,957
Management risk (R5)	11,416	12,291
Catastrophe risk (R6)	560,000	605,600
(C) Solvency-Margin ratio		
$[(A) / \{(B) \times 1 / 2\}] \times 100$	159.1%	161.6%

### Notes:

1. The amounts and figures above are calculated based on the provisions of Article 36 and Article 87 of the Enforcement Rules of the Insurance Business Act and the Ministry of Finance Official Notification No.50 in 1996.

## Solvency-margin ratio

The non-life insurance company deposit reserves in case that they pay insurance money for any insurance accident that occurred or refund depository insurance at maturity. It is also necessary for them to maintain a satisfactory ability to make payments or solvency even in case of unusual, unforeseeable risk, including a huge disaster or sharp drop in price of such assets as owned by them.

The rate of "Non-life insurance company's ability to make payments by owned assets and reserves (A in the above table) over any risk unforeseeable (B in the above table)" is indicated as the solvency-margin ratio (C in the above table) which is calculated according to the pertinent rules, including the Insurance Business Law.

### [Unforeseeable risk] (Total of risks): Sum of 1~5

1. **General underwriting risk:** risk associated with an insurance accident rate that is higher than normally predictable (other than the risk associated with a huge disaster).
2. **Anticipated ratio of Return Risk:** risk that might arise when actual yields from operation are lower than original at the time of calculating premiums of a depository insurance
3. **Investment risk:** management risk that might arise when the value of assets owned including securities changes in an unforeseeable manner.
4. **Management risk:** risk that might arise on business management in an unforeseeable manner, other than 1~3 and 5.
5. **Catastrophe risk:** risk that might arise with a huge disaster (such as the Great Kanto Earthquake) which is normally unforeseeable.

### [Capability of payment by non-life insurance company owned capital and reserves] (Total of solvency-margin)

The total of capital owned by a non-life insurance company, reserves (price fluctuation reserve, catastrophe reserve, securities and part of latent profit from land, and so on)

The solvency-margin ratio is one of the indicators used when the administrative authorities check insurance companies to determine the soundness of management for supervisory purposes. When the rate is 200% or more, the insurance company is deemed satisfactory in terms of its ability to make insurance and other payouts.



© JER has entered into a reinsurance contract with the government of Japan for earthquake insurance in accordance with Law concerning Earthquake Insurance. The law stipulates in addition that the government takes responsibility for support and for lending funds for the payment of insurance money. Because this is a form of special business, JER's solvency-margin ratio is not usable as a figure to enable the administrative authorities to trigger an order for improvement, irrespective of the above solvency-margin ratio, as provided for in Section 4, Article 3, Order to specify the division stated in Section 2, Article 132, Insurance Business Law.

**Note: The article is as follows.**

[In the event that an insurance company has entered into a reinsurance contract with the government as stated in Section 1, Article 3, Law concerning Earthquake Insurance (law No. 73, 1966), any order to be issued according to the listed division in Section 1 of the Article applicable to the insurance company shall be issued in accordance with the list of inapplicable division.]

**6. Information on market prices (acquisition cost or contract cost, market price and appraisal profit and loss) and others**

**① Securities**

**1. Other securities with market price**

At the end of fiscal 2008

(Unit: Million yen)

Division	Type	Acquisition cost	Book value	Difference
Securities with acquisition cost higher than that posted on the balance sheet	Public & corporate bonds	482,714	487,886	5,171
	Stocks	-	-	-
	Foreign securities	137,947	147,415	9,468
	Others	5,000	5,006	6
	Subtotal	625,662	640,308	14,646
Securities with acquisition cost not higher than that posted on the balance sheet	Public & corporate bonds	88,618	88,623	△1,994
	Stocks	-	-	-
	Foreign securities	237,898	221,735	△16,162
	Others	4,810	4,450	△359
	Subtotal	331,327	312,810	△18,517
Total		956,989	953,118	△3,870

At the end of fiscal 2009

(Unit: Million yen)

Division	Type	Acquisition cost	Book value	Difference
Securities with acquisition cost higher than that posted on the balance sheet	Public & corporate bonds	483,926	490,673	6,746
	Stocks	-	-	-
	Foreign securities	269,042	279,448	10,405
	Others	-	-	-
	Subtotal	752,969	770,121	17,152
Securities with acquisition cost not higher than that posted on the balance sheet	Public & corporate bonds	88,152	87,324	△828
	Stocks	-	-	-
	Foreign securities	158,746	146,365	△12,381
	Others	3,400	3,135	△264
	Subtotal	250,299	236,825	△13,473
Total		1,003,268	1,006,947	3,678

**2. Other securities sold at the term**

(Unit: Million yen)

Type	Fiscal 2008			Fiscal 2009		
	Sales price	Total of profit on sale	Total of loss on sale	Sales price	Total of profit on sale	Total of loss on sale
Total	83,063	27	6	58,208	582	562

**There are no notes with respect to the following items:**

1. Securities held for trading purposes
2. Securities to be held until maturity and with market price
3. Securities without market price.

**② Money trust**

**1. Money trust for investment**

(Unit: Million yen)

Type	As of end of fiscal 2008		As of end of fiscal 2009	
	Amount posted on the balance sheet	Appraisal difference contained in profit/loss	Amount posted on the balance sheet	Appraisal difference contained in profit/loss
Money trust	10,000	-	10,000	-

**2. Money trust for maturity**

Nothing to be mentioned.

### 3. Other money trusts with any other purpose than operation and maturity

(Unit: Million yen)

Type	As of the end of fiscal 2008			As of the end of fiscal 2009		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Money trust	3,750	3,495	△254	3,750	3,692	△57

### ③ Information on transactions involving derivatives

#### 1. On the conditions of transactions

With a view to hedging risks as a result of possible changes in the foreign exchange of assets in foreign currency, JER deals in foreign exchange forward contracts and currency option transactions. In addition, we conduct bond futures trading and over-the-counter securities option transactions to reduce interest fluctuation risks in connection with securities.

The derivative transactions we engage in have market risks associated with market fluctuations. Most of them are done, however, to hedge the as-

sets in kind, and losses from the transaction in question never arise on their own. In some cases, we use options transactions for securities scheduled to be purchased. But risks are limited because we put a quantitative limit on such transactions.

Because we deal with highly reputable financial institutions, we believe that there is little credit risk such as non-fulfillment of a contract.

Our derivatives transactions are checked by the Risk Management Division, independent of the Transactions Execution Division, and the results of the checks are regularly reported to the board of managing directors.

#### 2. On market prices for transactions

A contract amount in a derivative transaction is simply a nominal contract amount or an assumed principal by calculation in such a transaction. The contract amount as such represents no market risk or credit risk.

### 3. Derivative transaction contract amounts, market price and appraisal profit and loss

#### (a) Currency related

(Unit: Million yen)

Type	As of end of fiscal 2008			As of end of fiscal 2009				
	Contract amount	Market price	Appraisal profit and loss	Contract amount	Market price	Appraisal profit and loss		
	1 year or longer ones			1 year or longer ones				
Transactions other than market transactions								
Forward foreign exchange contracts								
Short commitment								
US dollar	52,984	33,907	53,582	△598	22,549	6,394	21,870	679
Euro	141,384	103,181	150,169	△8,785	229,048	71,341	230,469	△1,420
Canadian dollar	1,211	1,211	1,085	126	1,211	-	1,276	△64
Total				△9,257				△806

#### Note: Calculating a market price

Foreign exchange forward contract: Foreign exchange rates depend on futures quotations.

**CORPORATE DATA** (as of March 31, 2010)

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Established:	May 30, 1966
Capital:	1 billion yen
Total assets:	1,092.2 billion yen
No. of employees:	26
Address:	Hulic Kobuna-cho Building, 8-1, Nihonbashi-kobuna-cho, Chuo-ku, Tokyo Japan 103-0024
Phone:	03-3664-6098
E-mail:	kikaku@nihonjishin.co.jp
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**Japan Earthquake Reinsurance**