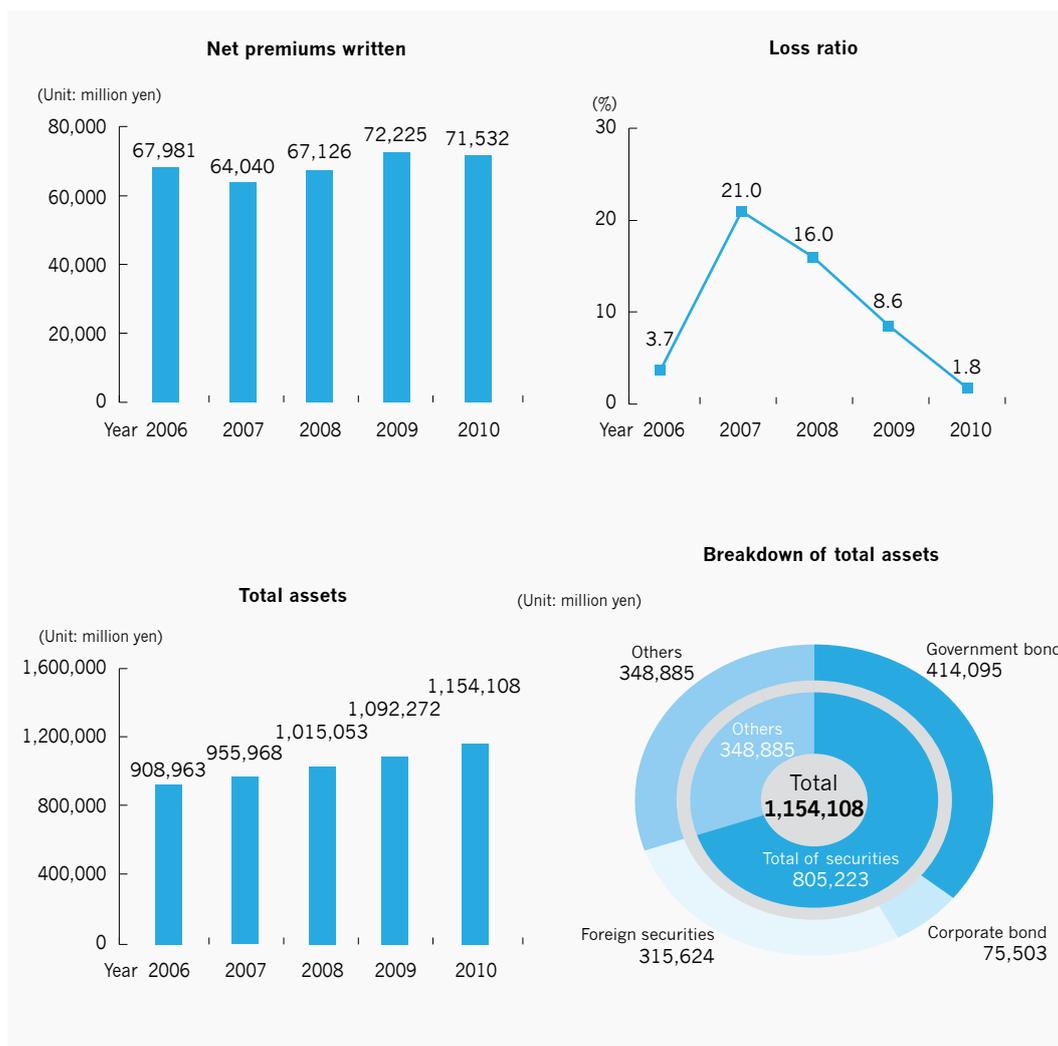


# JAPAN EARTHQUAKE REINSURANCE CO., LTD.

## FINANCIAL HIGHLIGHTS

Although net premiums written in fiscal 2010 declined from the previous year, total assets increased steadily to 1,154.1 billion yen at the end of March 2011. 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	2006	2007	2008	2009	2010
Net premiums written	67,981	64,040	67,126	72,225	71,532
Loss ratio	3.7%	21.0%	16.0%	8.6%	1.8%
Underwriting income	72,451	67,320	70,546	79,278	148,490
Ordinary profit	143	16	200	951	990
Net income	△16	4	12	5	3
Solvency-margin ratio	175.3%	185.4%	159.1%	161.6%	124.7%
Total shareholders' equity	1,600	1,614	1,617	1,633	1,634
Total assets	908,963	955,968	1,015,053	1,092,272	1,154,108
Net unrealized gains on other securities	5	15	6	16	14
Net unrealized gains on other securities of earthquake insurance	△4,540	1,722	3,063	16,154	8,410

## 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.

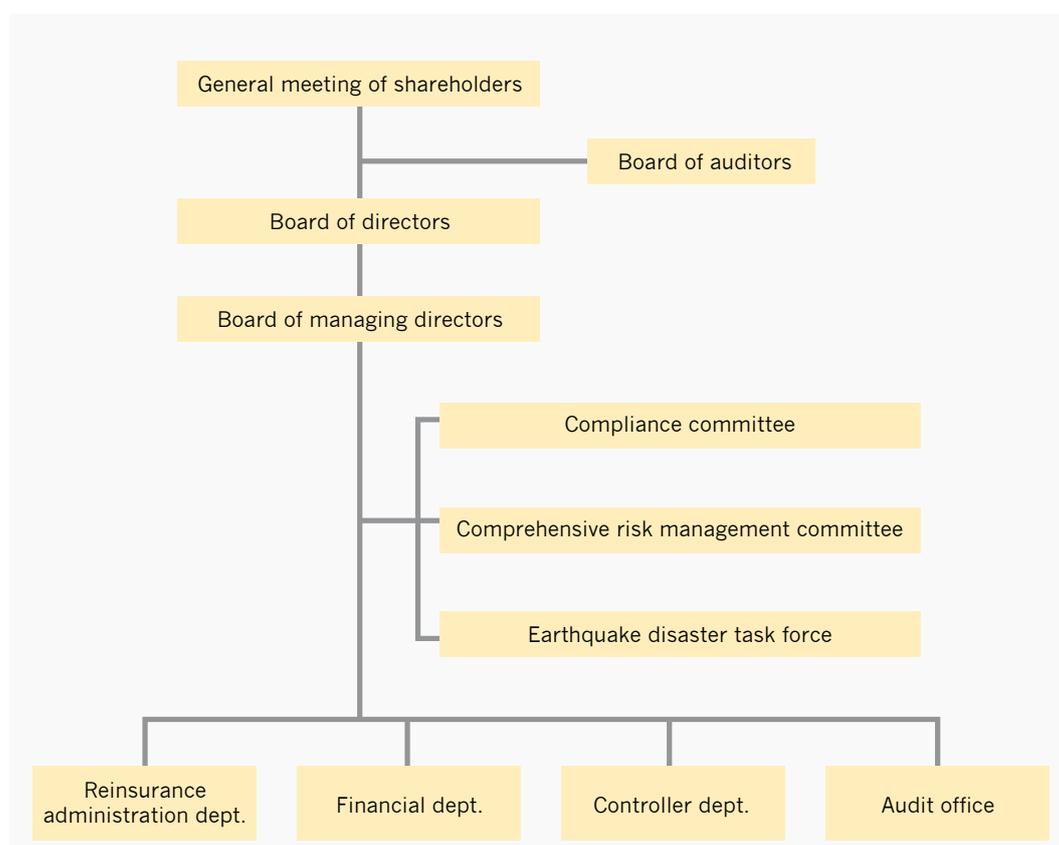
## TOP 10 SHAREHOLDERS

(As of March 31, 2011)

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
Aioi Nissay Dowa Insurance Co., Ltd.	255	12.8
NIPPONKOA Insurance Co., Ltd.	208	10.4
The Fuji Fire and Marine Insurance Co., Ltd.	123	6.2
The Toa Reinsurance Co., Ltd.	93	4.7
Nisshin Fire & Marine Insurance Co., Ltd.	61	3.1
The Kyoei Fire & Marine Insurance Co., Ltd.	34	1.7
The Asahi Fire and Marine Insurance Co., Ltd.	8	0.4

## ORGANIZATION

(As of April 1, 2011)





## DIRECTORS (FULL-TIME)

(As of July 1, 2011)

Post	Name
Chairman (representative director)	Shozo Wakabayashi
President (representative director)	Hideo Suzuki
Managing director (representative director)	Koichi Kubota
Managing director (representative director)	Tadashi Baba
Corporate auditor	Takashi Shikama

## 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

JER has established the task force against earthquake disasters as a standing in-house organization. Based on annual plans, the task force undertakes training in emergency response and earthquake reinsurance payments, assuming an earthquake with an epicenter directly below metropolitan Tokyo. For instance, it establishes and reviews an emergency response manual. In fiscal 2010, JER contracted with external consultants to examine rules, manuals, etc. (Tokio Marine & Nichido Risk Consulting Co., Ltd.), create a report assuming damages to our company (InterRisk Research Institute & Consulting, Inc.), and provide technical support (NKSJ Risk Management, Inc.). We also undertook an earthquake drill involving all of our officers and employees participated assuming an earthquake with an epicenter directly below metropolitan Tokyo.

#### *First Earthquake Drill*

JER held its first earthquake drill on January 19th, with a focus on the local disaster response system of Chuo-ku, Tokyo, where our office is located. We conducted this drill with the cooperation of the Disaster Prevention Section of Chuo-ku and the neighborhood association of Nihonbashi Kobunacho. The drill included explanations about the disaster response measures of the Tokyo Metropolitan Government and a tour of Jushi Square, the local disaster preparedness center, and the disaster prevention facilities of Horidome Children's Park, the tempo-

rary evacuation area. We also practiced operation of the safety confirmation and information transmission systems.

#### *Second Earthquake Drill*

For the second drill on March 10, we invited Nomura Research Institute, Ltd. and undertook a tabletop exercise assuming an earthquake with an epicenter directly below metropolitan Tokyo and received a lecture on business continuity plans (BCP). In the tabletop exercise, we simulated how officers and employees would gather in the office after the occurrence of the earthquake.

### **OPERATION BASED ON HIGHLY LIQUID ASSETS**

Should an earthquake with an epicenter directly below metropolitan Tokyo strike, 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 price volatility risks at the time of realization, we hold mainly medium-term securities.

### **PREPARATIONS FOR DISASTERS**

JER has installed in its head office an earthquake alert system provided by the Japan Meteorological Agency to ensure the safety of visitors, officers, and employees. We have also made our office resistant to earthquakes by securing office facilities and equipment, stored emergency supplies in the head office warehouse, and distributed safety shoes, bags containing emergency goods, and other items to all officers and employees. We thus strive to ensure business continuity in the event of an earthquake with an epicenter directly below metropolitan Tokyo.



## 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 major earthquake calamity, the Company is provided with a task force against earthquake 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 division 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 2011, 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 set forth management methods for various risks facing the Company in the Risk Management Policy and monitor how risks are managed. In addition, we work to improve risk management by introducing comprehensive risk management to enhance the quantitative and qualitative methods of risk analysis and management.

### **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. These risks are classified into “market risks” and “credit risks” for the management, and the management standards are stipulated in the “Standards for Management of Investment Risks” for each fiscal year.

#### *Market risks*

Market risks include interest-rate risk, exchange risk, and price volatility risk. These are the risks of losses that investors may sustained with fluctuations in the value of financial assets or debt position due to market trends.

We manage overall market risks both quantitatively and qualitatively. We measure the value at risk (VaR) of interest rates and currency exchanges as the amount of risks, while also monitoring the unrealized gain/loss and price changes (responsiveness). We also apply an upper limit of retention or a loss-cut rule as necessary.

We also have separate divisions for executing transactions and for doing paperwork, respectively, thereby enabling the supervisory and checking functions to work.

#### *Credit risks*

Credit risks are the risks of a reduction in value or the disappearance of assets, which results when the credit standing of the borrower has weakened, for example.

When purchasing securities, we limit 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. We also measure the credit VaR based on the default rate, etc. for managing credit risks.



## LIQUIDITY RISKS

Liquidity risks are the risks of losses that may be caused by failure to ensure the liquidity of assets against debt or by being forced to execute transactions at a disadvantageous price due to market turmoil, etc. These risks are important in fulfilling our social mission. We own sufficient liquid assets by keeping in mind the possibility of having to dispose of all assets in the event of a major earthquake. We also strive to accurately assess cash flows, thereby managing funds appropriately.

## OPERATIONAL RISKS

Operational risks are classified into “paperwork issues,” “system risk,” and “other risks,” and we manage these risks as appropriate given the characteristics of each.

### *Paperwork issues*

Paperwork issues are the risks of losses that may be caused by the failure of officers, employees, or any other members of an organization to do accurate paperwork, or by accidents, fraud, or any other improper acts. We constantly examine the rules and regulations of authority and paperwork procedures and manuals and strive to improve our training programs and educational system, to ensure exact and perfect paperwork. We also regularly check the rules and regulations through in-house auditing for conformity with related laws and regulations.

### *System risks*

System risks are risks of losses that may be caused by system problems such as computer system failures or glitches or by unauthorized use of a computer.

We strive to protect our information assets appropriately under our Security Policy and Safety Measure Standards, which we established for preventing leaks of internal information, etc., and as safety measures for our information system. In addition, we have clarified our measures for handling crises by developing the Information System Contingency Plan for disasters and other emergency situations.

### *Other risks*

As operational risks other than paperwork issues and system risks, we are aware of such risks as “human risks” (the risks of losses that may be caused by outflows or losses of human resources) and “rumor risks.” We strive to manage these risks with each responsible division playing the leading role.

\* Underwriting risks are excluded because they are guaranteed under the earthquake insurance system.