

JAPAN EARTHQUAKE REINSURANCE CO., LTD.

PROFILE

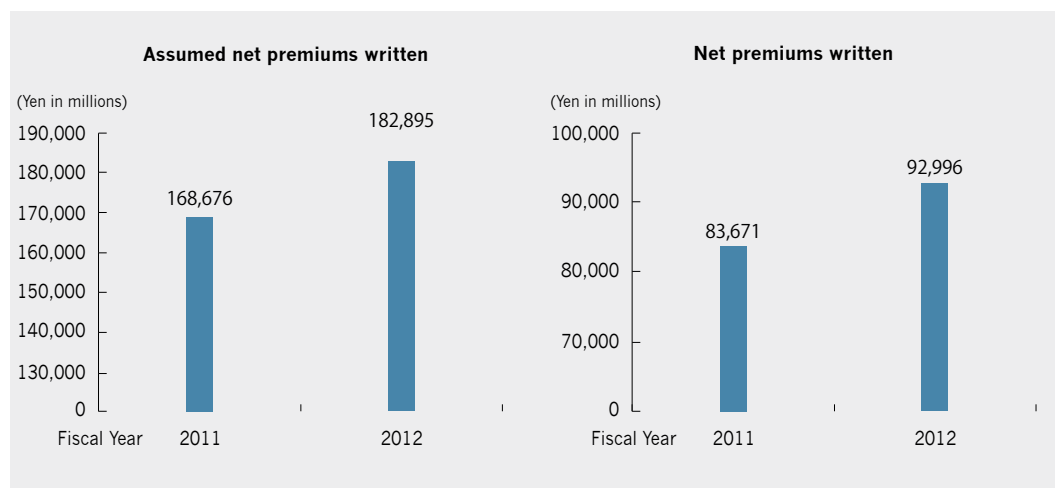
In accordance with the introduction of the Law concerning Earthquake Insurance (Law No. 73, May 18, 1966) and following the launch of sales of earthquake insurance on dwelling risks to be written in conjunction with dwelling and shop-owners comprehensive insurance policies, JER was established with share capital of 1 billion yen by 20 domestic Japanese non-life insurance companies on May 30, 1966. The Company was licensed for the earthquake insurance business and started its operation on June 1, 1966.

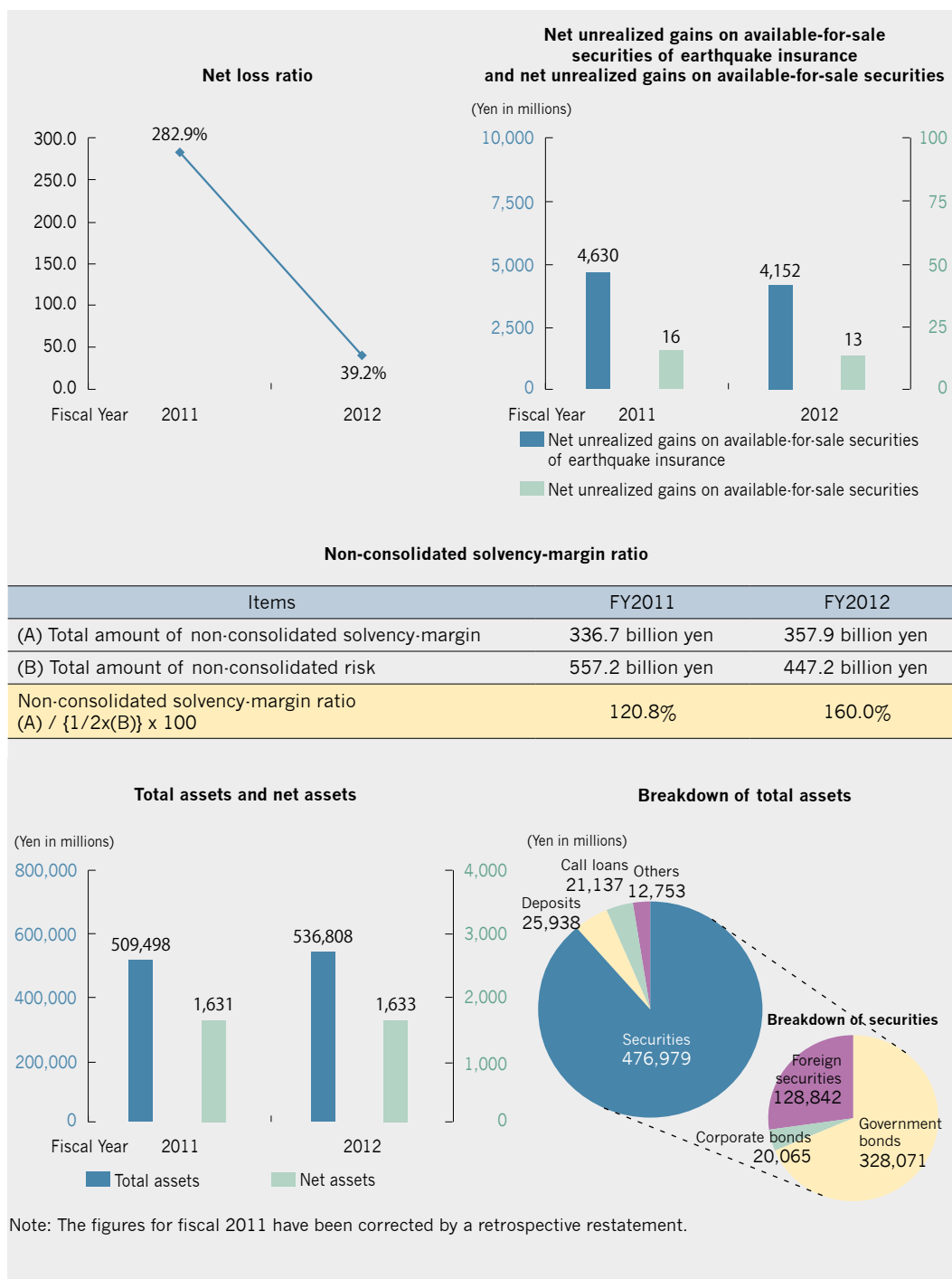
Earthquake insurance on dwelling risks depends on this reinsurance system (which is a safety net, as it were), in which the government, non-life insurance companies and JER participate to ensure that insurance claims can be paid to policyholders without fail.

The insurance premiums paid by policyholders are separated from non-life insurance companies, and are managed and operated by the government and JER.

JER is thus at the center of a reinsurance system, and undertakes reinsurance procedures with the government and non-life insurance companies, while managing and operating the insurance premiums paid by policyholders as the sole earthquake reinsurance company in Japan.

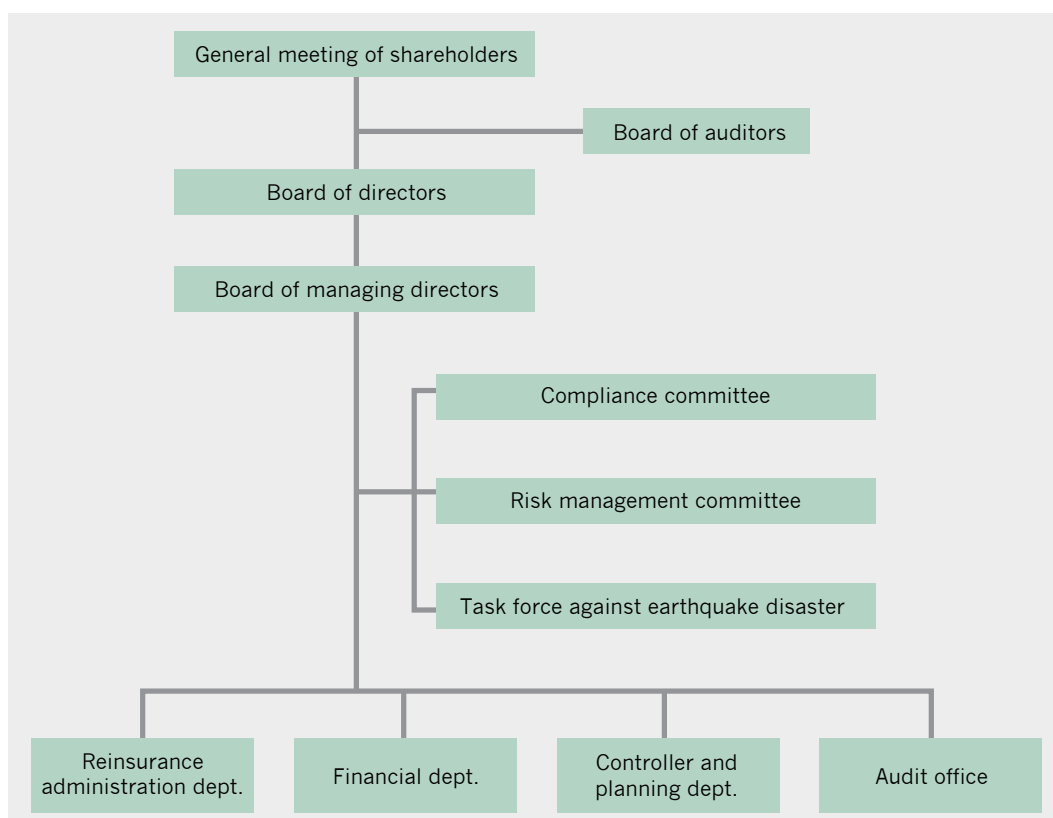
FINANCIAL HIGHLIGHTS





ORGANIZATION

(As of April 1, 2013)



SHAREHOLDERS

(As of March 31, 2013)

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
SECOM General Insurance Co., Ltd.	7	0.4



BOARD MEMBERS (FULL-TIME)

(As of July 1, 2013)

Post	Name
Chairman (representative director)	Shozo Wakabayashi
President (representative director)	Masamichi Irie
Managing director (representative director)	Tadashi Baba
Managing director (representative director)	Hiroyuki Fushimi
Corporate auditor	Takashi Shikama

PREPARATION TO THE ANTICIPATED LARGE SCALE EARTHQUAKE

Our most important mission is to support prompt insurance payouts by non-life insurance companies and to promptly and steadily make reinsurance payouts. To achieve this, we have established a standing Task Force against Earthquake Disaster consisting of full-time directors and managers, and it carries out exercises and develops a system on a regular basis every year to deal with great disasters. We also manage and operate our assets that are accumulated for reinsurance payouts by paying the utmost attention to liquidity (cashability) and safety so that reinsurance payouts are made without delay in the face of major disasters. Specific responses are as follows.

TASK FORCE AGAINST EARTHQUAKE DISASTER AND ITS ACTIVITIES

Task Force against Earthquake Disaster has been established as a standing in-house organization. The committee carries out exercises, including emergency responses and drills for reinsurance payouts, in accordance with an annual plan in preparation for the occurrence of an inland earthquake that strikes the Tokyo metropolitan area, and it develops and examines a disaster response manual among other activities.

During fiscal 2012, we took the steps described below to prepare for the inland earthquake that is expected to strike the Tokyo metropolitan area in the future from the perspective of our business continuity plan (BCP). Aiming to fulfill our mission, we focused in particular on system-related measures to ensure that our operations will continue even if our offices are damaged in a disaster by transferring our critical systems to our state-of-the-art data center in Tokyo, which has superior earthquake resistance. We have also significantly reduced the risk of simultaneous damage from disasters by installing a backup system in Okinawa. Moreover, by installing a system that can be accessed externally over the Internet, we have created an operating environment in which employees can continue to work without having to go to their offices.

In addition, we carried out disaster response drills that were attended by all officers and employees in preparation for an inland earthquake in the Tokyo metropolitan area, similar to the drill carried out in the previous year.

First disaster response drill

From the perspective of our BCP, we have upgraded our emergency safety confirmation system as an internal communications tool. In our previous safety confirmation system, our employees had to individually access the system to report that they were safe. However, we have significantly improved the usability of our new safety confirmation system, as it will automatically send a request to all officers and employees to report on their status if a large-scale disaster takes place. We gave a presentation on how to use the system on July 13 and 18, 2012, and our officers and employees set up a network to access the system through their mobile devices. Moreover, to become familiar with this tool, we conducted safety confirmation drills on September 1, 2012 and March 10, 2013, using the system's training function.

Second disaster response drill

On March 11, 2013, the second anniversary of the 2011 Great East Japan Earthquake, we held an informational session on the section of the Tokyo metropolitan ordinance related to measures for dealing with commuters who can't get home, which was enforced in April 2013 by the Tokyo Metropolitan Government, and learned more about these measures. We also revised our special disaster countermeasure manual (for regular home use) by taking into account the issues that were pointed out by external consultants, and all our officers and employees were fully notified of this revision.

Drills on traveling home by foot

To ensure that our officers and employees can get home safely in a disaster, we held drills from October to December 2012 on traveling home by foot.

OPERATION BASED ON HIGHLY LIQUID ASSETS

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

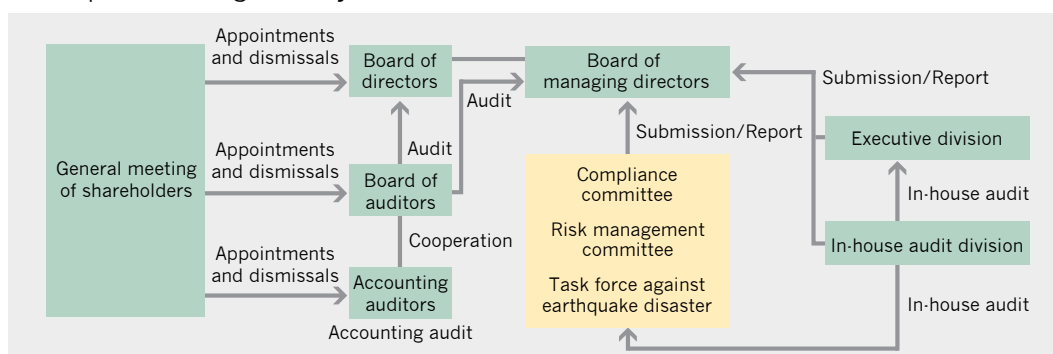
PREPARATIONS FOR DISASTERS

We have installed in its head office an earthquake alert system provided from the Japan Meteorological Agency to ensure the safety of visitors, officers and employees. We have also taken the initiative to improve the earthquake resistance of its headquarters by securely fixing office facilities and equipment. In accordance with the part of the Tokyo metropolitan ordinance related to measures for dealing with commuters who can't get home, we are maintaining the necessary amount of food, water, daily commodities, and other items so that employees can stay in the office if a disaster strikes during working hours.



CORPORATE GOVERNANCE

We believe that establishing corporate governance is an important management issue, and are endeavoring to manage our business in a sound and appropriate manner by establishing a transparent management system with verification functions.



COMMITTEE-BASED OPERATION

We have established a Compliance Committee and a 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, we are 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 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 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 2013, based on the “In-House Audit Policy and Plan” adopted by resolution of the Board of Directors, we will concentrate on audits of our readiness to respond to risks that must be managed following the establishment of our Integrated Risk Management Rules and the installation of BCP facilities in the event of disasters. We will also conduct system audits through third parties, including a backup system we developed in accordance with the medium-term plan for our information systems in response to the inland earthquake that is expected to strike the Tokyo metropolitan area. We will also 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

We have developed a structure in which risk management is appropriately carried out to ensure sound and safe management. This organizational framework and important risk management issues are defined in our Risk Management Rules and Integrated Risk Management Rules. Specific ways of managing various risks—namely, asset management risks, liquidity risks, and operational risks—are defined in our management rules for each type of risk and our annual risk management policies. We have also established a company-wide Risk Management Committee, and are managing risks in an integrated manner by fully understanding our risk management situation.

ASSET MANAGEMENT RISKS

Risks relating to asset management are classified into “market risks” and “credit risks” for risk management, and the management standards are stipulated in the “Standards for Management of Investment Risks” for each fiscal year.

Market risks

Market risks include interest-rate risk, foreign exchange risk, and price volatility risk. These are the risks of losses that investors may sustain with fluctuations in the value of assets or debt, or in income, due to changes in a number of risk factors in the market. We manage overall market risks both quantitatively and qualitatively. We measure the value at risk (VaR) of interest rates and currency exchange as the amount of risk, while also monitoring the unrealized gain/loss and price changes (sensitivity). We also apply an upper limit of retention or a loss-cut rule if necessary. In addition, we have separate divisions for executing transactions and for handling administrative processes, respectively, thereby enabling the supervisory and checking functions to work effectively.

Credit risks

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

When purchasing securities, we limit their issuers to those with high credibility with reference to the credit rating made by rating agencies. We always check securities held to determine credibility, and conduct individual controls to avoid a concentration on a specific group of companies or type of business. We also measure the credit VaR based on the default rate, etc. for managing credit risks.



Stress test

The VaR that statistically measures the amount of risks has a limit in circumstances when financial market is fluctuating greatly. The stress test is used to complement monitoring in such circumstances. The stress test examines the amount of potential losses by assuming a situation in which risk factors, such as interest rates and exchange rates, fluctuate considerably.

LIQUIDITY RISKS

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

OPERATIONAL RISKS

Operational risks are classified into “Administrative risks,” “IT system risks,” and “other operational risks,” and we manage these risks as appropriate given the characteristics of each.

Administrative risks

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

IT system risks

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

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

Other operational risks

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

* Underwriting risks are excluded from risks to be managed, because earthquake insurance on dwelling risks has been managed under the legal system.