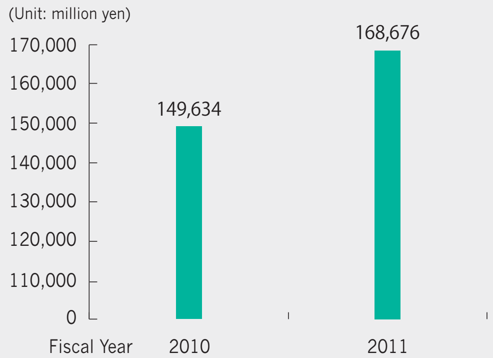
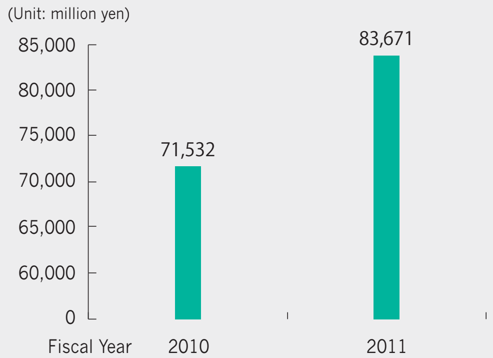
JAPAN EARTHQUAKE REINSURANCE CO., LTD.

FINANCIAL HIGHLIGHTS

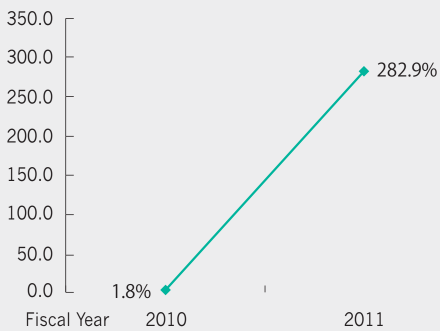
Assumed net premiums written



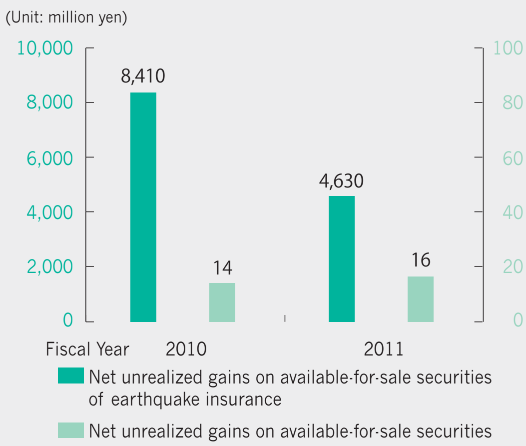
Net premiums written



Loss ratio

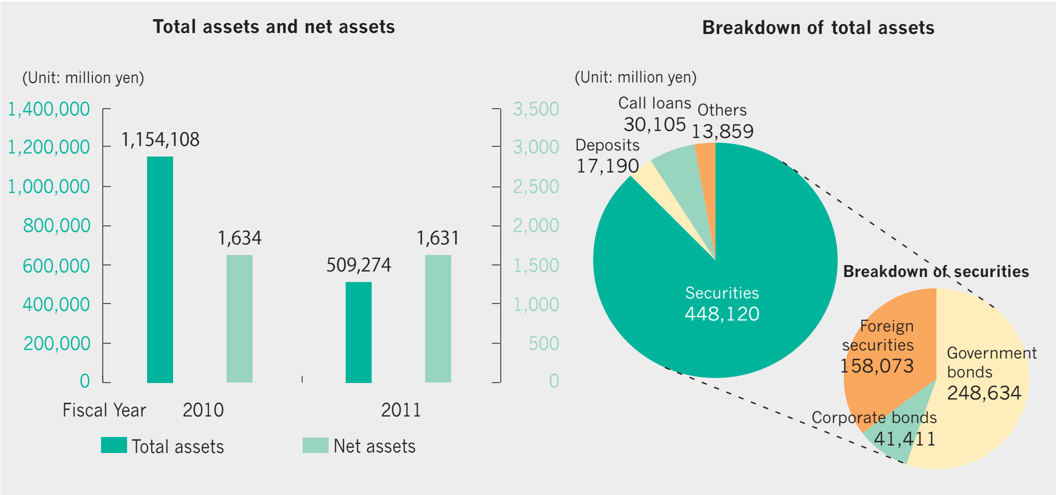


Net unrealized gains on available-for-sale securities of earthquake insurance and net unrealized gains on available-for-sale securities



Non-consolidated solvency-margin ratio

Items	FY2010	FY2011
(A) Total amount of non-consolidated solvency-margin	430.8 billion yen	336.5 billion yen
(B) Total amount of non-consolidated risk	690.8 billion yen	557.2 billion yen
Non-consolidated solvency-margin ratio (A) / {1/2x(B)} x 100	124.7%	120.8%



PROFILE

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

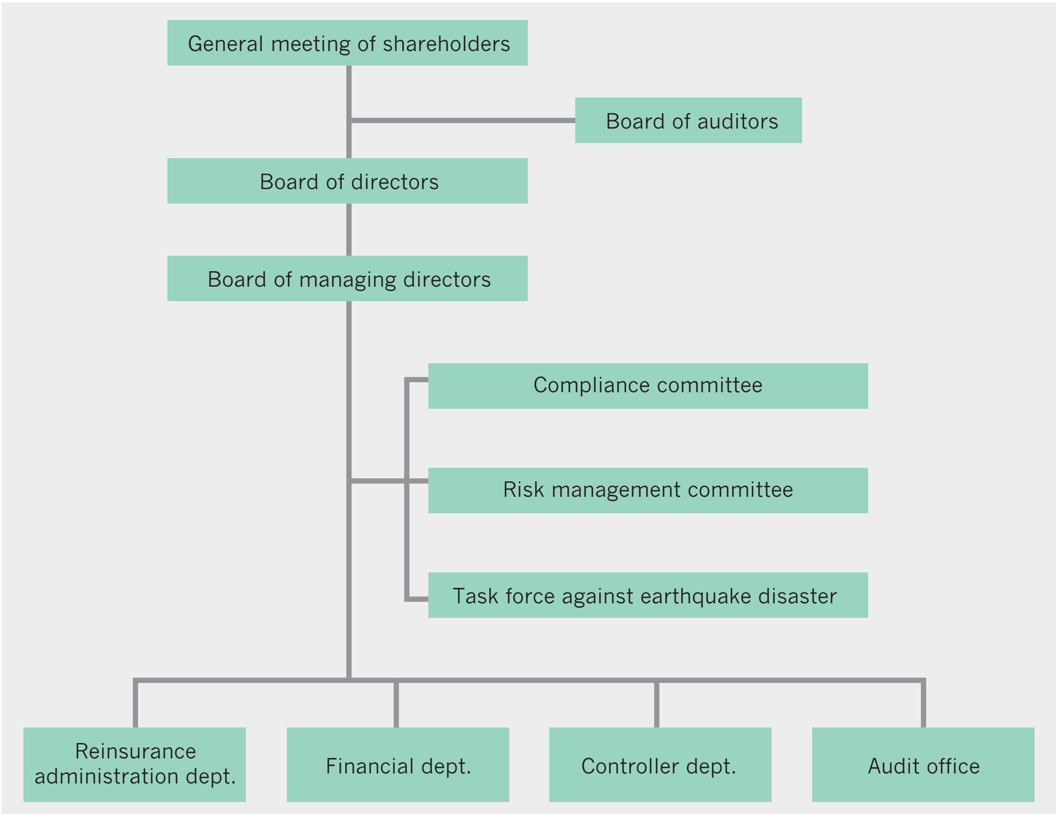
Earthquake insurance on dwelling risks depends on this reinsurance system (which is a safety net, as it were), in which the government, non-life insurance companies and JER participate to ensure that insurance claims can be paid to policyholders without fail.

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

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

ORGANIZATION

(As of April 1, 2012)



SHAREHOLDERS

(As of March 31, 2012)

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

DIRECTORS (FULL-TIME)

(As of July 1, 2012)

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

RESPONSE TO GREAT EARTHQUAKES

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 2011, while concentrating its resources on responding to the Great East Japan Earthquake that occurred just before the fiscal year started, we drew lessons from the experience and issues identified during the process and took steps to incorporate the lesson and the experience to prepare the response in the event of an inland earthquake in the Tokyo metropolitan area, the likelihood of which is presently considered to be high. Specifically, we evaluated the results of each measure that was taken in dealing with the Great East Japan Earthquake, and identified issues. For those issues that required an urgent response, we immediately took steps to address them.

Main issues, etc.

- Strengthening processing capabilities and improving the functions of the reinsurance payment system and other systems
- Developing a backup system to ensure operational continuity with high precision
- Securing communication methods immediately after an earthquake

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

On February 15, we reported the results of examinations by external consulting companies, the “Examination of the Disaster Response Manual, etc. (Tokio Marine & Nichido Risk Consulting Co., Ltd.)” and the “Examination of JER’s Anticipated Damage Caused During the Inland Earthquake in the Tokyo Metropolitan Area (InterRisk Research Institute & Consulting, Inc.).” We also conducted drills to operate the safety confirmation and communication system.

Second disaster response drill

On March 14, we carried out a tabletop exercise in preparation for an inland earthquake striking the Tokyo metropolitan area, similar to that done in the previous year, by inviting a guest lecturer from Nomura Research Institute, Ltd. During the exercise, we reflected on the actions when the Great East Japan Earthquake struck, and confirmed and fully understood the regulations and rules so that they would be able to take appropriate actions even in the event of an inland earthquake in the Tokyo metropolitan area. The participants also looked into ways to develop better regulations and rules.

Operation based on highly liquid assets

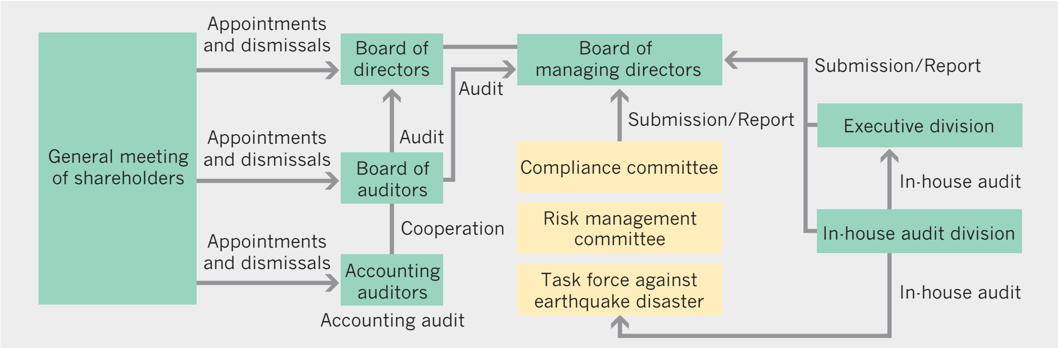
Should an inland earthquake in the Tokyo metropolitan area strike, we would have to pay a tremendous amount of reinsurance claims in a short period of time. For this reason, we always hold mainly highly liquid and high-rating securities. To reduce price volatility risks at the time of realization, we 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. As part of its steps to ensured a continuation of operations in the event of an inland earthquake in the Tokyo metropolitan area, we have installed important internal systems in a cutting-edge data center that has the most sophisticated levels of the earthquake-resistant capacity and energy efficiency in Japan.

CORPORATE GOVERNANCE

In-house governance system



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 2012, based on the "In-House Audit Policy and Plan" adopted by resolution of the Board of Directors, we decided to focus on audits of the progress of the initiatives in handling risks to be managed, and in dealing with systems at the time of disasters, in light of the establishment of new comprehensive risk management rules. 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

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 Risk Management Committee to supervise comprehensive risk management. We have also set forth management methods for various risks 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, 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 function 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 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.

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 possibly 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 other operational 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 “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.