

# ANNUAL REPORT 2013

Introduction to Earthquake Reinsurance in Japan

**Japan Earthquake Reinsurance Co., Ltd.**

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## MESSAGE FROM THE PRESIDENT



Chairman: Shozo Wakabayashi      President: Masamichi Irie

We would like to take this opportunity to express our sincere gratitude for the continued support from all our stakeholders.

Japan Earthquake Reinsurance Co., Ltd. (JER) was founded in 1966 as the only company in Japan permitted to exclusively handle reinsurance for earthquake insurance covering dwelling risks. Since then, we have not only endeavored to promptly make earthquake reinsurance payouts, but also to pay close attention to managing the assets that have been deposited for future earthquake reinsurance payouts, focusing primarily on liquidity and safety.

Due to the effects of monetary easing and various economic policies, the Japanese economy has been staging a gradual recovery. In earthquake insurance, given the increasing interest in such insurance since the 2011 Great East Japan Earthquake, our number of in-force contracts is now over 15 million, and our household earthquake insurance coverage ratio stands at 27.8% (on a provisional basis), both of which are now at record levels. The number of in-force contracts and the household earthquake insurance coverage ratio have more than tripled since the time of the Great Hanshin-Awaji Earthquake in 1995.

In this environment, under our third medium-term business plan, which commenced last year, in light of our experience from the 2011 Great East Japan Earthquake we have steadily implemented procedures—mainly in response to massive earthquakes or consecutive earthquakes—and reviewed and developed a structure that will allow our operations to continue even if our headquarters is stricken by a disaster.

In particular, to ensure the continuity of our operations if our headquarters is afflicted by a disaster, we have comprehensively upgraded our system infrastructure in preparation for the possibility of an imminent inland earthquake striking the Tokyo metropolitan area, and have begun the full operation of the system.

Meanwhile, to strengthen our earthquake insurance system, the government has revised the ratio of public and private burdens in its fiscal 2013 budget. With this initiative, we believe that the credibility of the earthquake insurance system has been reinforced further.

This year marks the 90th anniversary of the Great Kanto Earthquake. Carved into the monument commemorating this earthquake is the warning, “Always be prepared for unexpected earthquakes.” So we must make every effort to always be prepared to respond to an inland earthquake in the Tokyo metropolitan area, a massive Nankai Trough earthquake, or any other earthquakes that are expected to take place in the future.

We are committed to our mission to become a company that is completely trusted by our stakeholders by continuing to take a proactive role in enhancing and improving the earthquake insurance system.

We have prepared this annual report 2013 to provide our stakeholders with insight into the current situation and activities of JER. We welcome your comments and opinions.

July 2013

Masamichi Irie  
President  
Japan Earthquake Reinsurance Co., Ltd.

# JAPAN EARTHQUAKE REINSURANCE CO., LTD.

## PROFILE

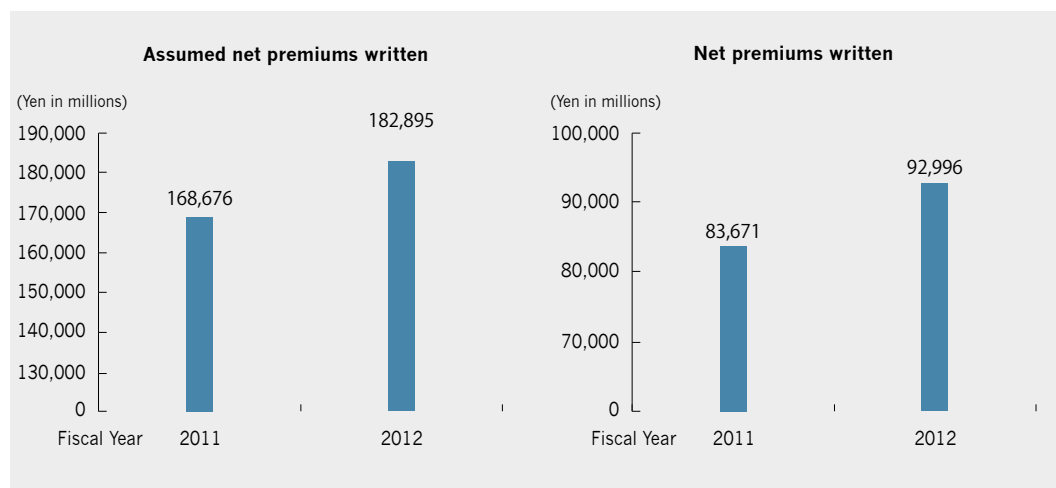
In accordance with the introduction of the Law concerning Earthquake Insurance (Law No. 73, May 18, 1966) and following the launch of sales of earthquake insurance on dwelling risks to be written in conjunction with dwelling and shop-owners comprehensive insurance policies, JER was established with share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

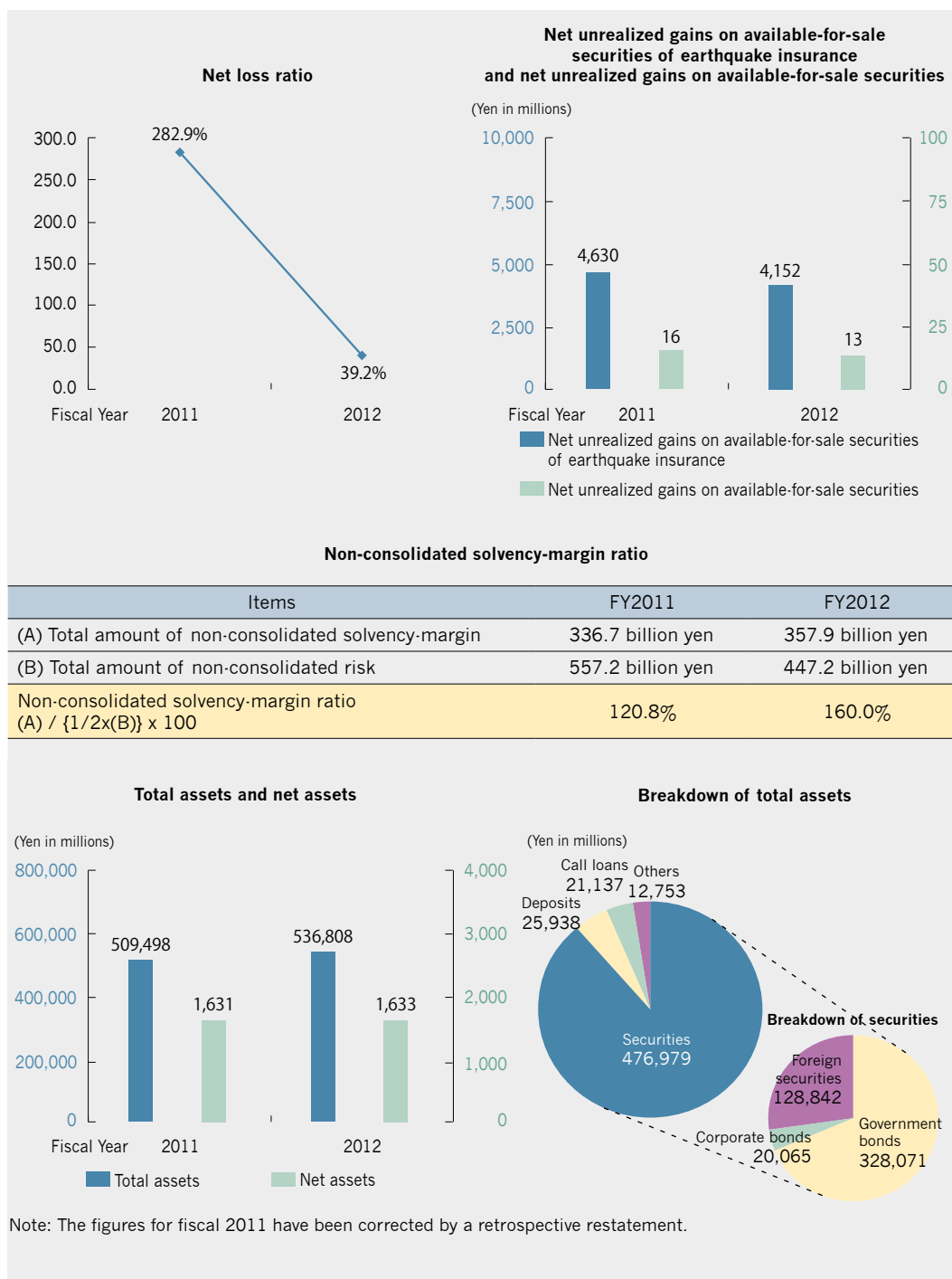
Earthquake insurance on dwelling risks depends on this reinsurance system (which is a safety net, as it were), in which the government, non-life insurance companies and JER participate to ensure that insurance claims can be paid to policyholders without fail.

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

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

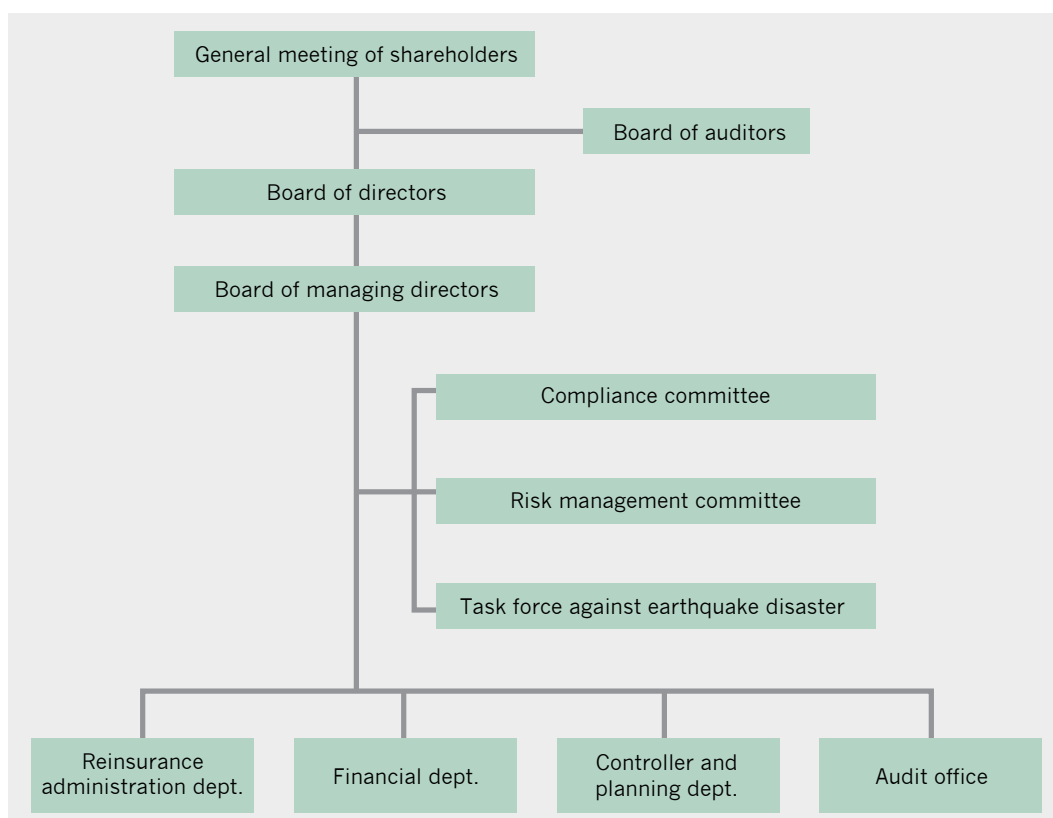
## FINANCIAL HIGHLIGHTS





## 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**

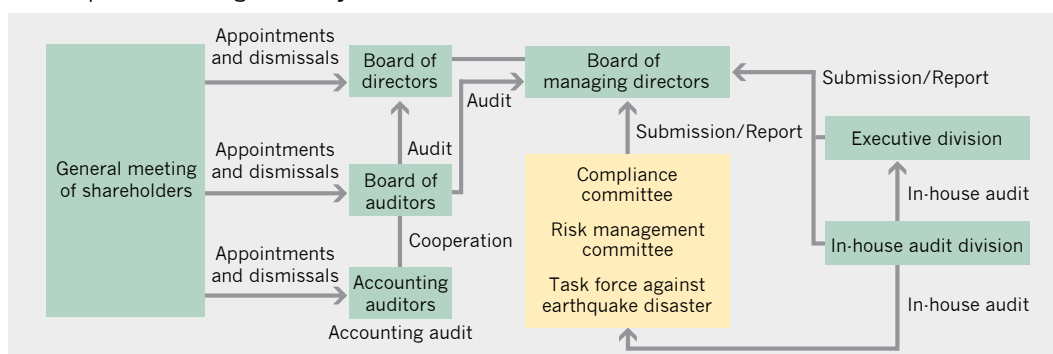
We have installed in its head office an earthquake alert system provided from the Japan Meteorological Agency to ensure the safety of visitors, officers and employees. We have also taken the initiative to improve the earthquake resistance of its headquarters by securely fixing office facilities and equipment. 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*

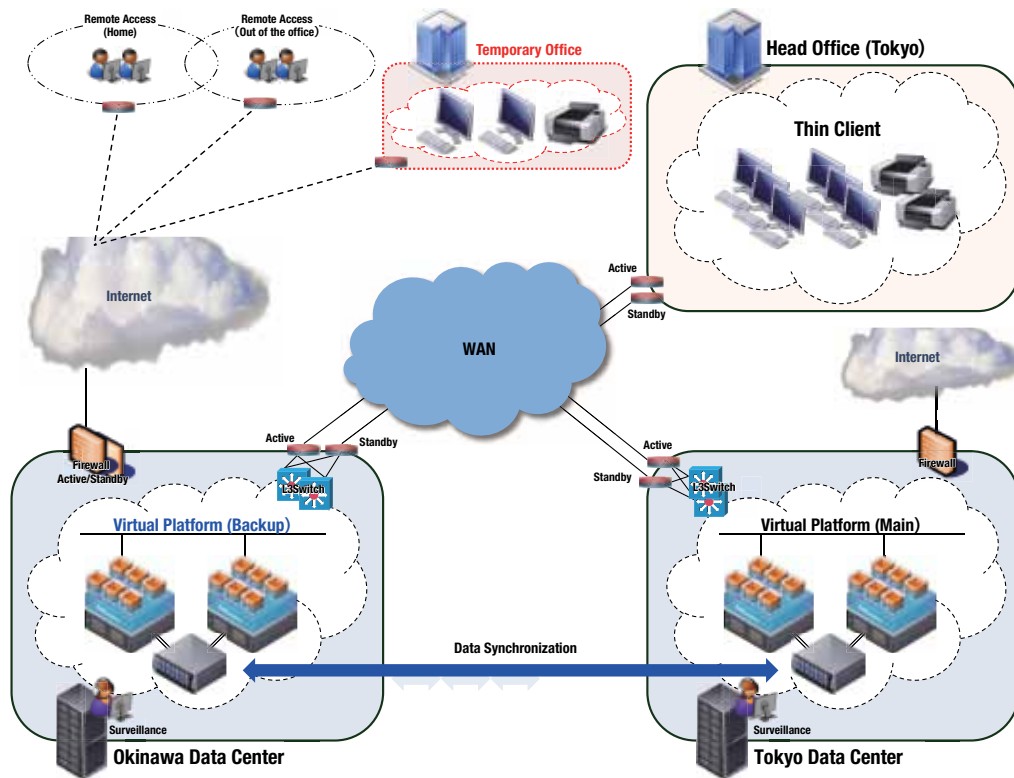
As other operational risks, we are aware of such risks as “human resource risks” (the risks of losses that may be caused by outflows or losses of human resources) and “reputational risks.” We strive to manage these risks with each responsible division playing the leading role.

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

# TOPICS

## COMPLETED UPGRADE OF THE JER DATA PROCESSING SYSTEM

JER drew up and implemented a Medium-Term Information System Plan (for fiscal 2012–2014) aimed at creating conditions that will allow it to keep operating with high accuracy, even if a quake occurs with an epicenter beneath Tokyo. In fiscal 2012, JER installed a data center on Okinawa, which is not very likely to experience a disaster at the same time, along with a backup system, and built a system that synchronizes data between Tokyo and Okinawa over telecommunications lines. At the same time, JER completed the installation of a remote access system and groupware that will enable its employees to access the data center system directly from their homes or other locations in the event of an accident at JER's head office. Through these mechanisms, JER aims to establish an operational management system that allows people in remote areas to work together.





## PROJECT TEAM FOR THE EARTHQUAKE INSURANCE SYSTEM

After the Great East Japan Earthquake, various opinions on the salability of an Earthquake (EQ) Insurance System were obtained from stakeholders. In addition, an improvement in the resilience of the EQ Insurance System was required, given concerns over the occurrence of a Tokyo Inland earthquake or massive earthquakes along the Nankai Trough, etc. in the future, as the risk reserve was depleted by huge claims payments of more than 1.2 trillion yen. In response to these agendas, the government's Ministry of Finance created a new project team to conduct a review of the Japanese EQ Insurance System in April 2012. Thirteen members from the academic community (including an economist, an insurance law jurist, a seismologist, and a disaster prevention expert), consumer representatives, and members of the House of Representatives, etc., joined the team. JER also joined the project team, with industry members such as the GIAJ acting as observers. Based on discussions in the 12 meetings held since April 23, the project team published a report on November 30, 2012.

The Ministry of Finance's official website:

[http://www.mof.go.jp/about\\_mof/councils/jisinpt/report/index.htm](http://www.mof.go.jp/about_mof/councils/jisinpt/report/index.htm)

# EARTHQUAKE INSURANCE IN JAPAN

## ESTABLISHING THE EARTHQUAKE INSURANCE SYSTEM

Japan is well known for its frequent earthquakes. Traditionally, the thinking has been that it is difficult to provide insurance coverage for damage caused by earthquakes. One reason for this is that nobody can be sure when an earthquake will strike. Another reason is that there is a risk that a major earthquake could cause tremendous damage. Earthquake insurance was for many years the subject of a great deal of research and discussion, to little avail. Despite this, there was considerable public demand for a system of earthquake insurance on dwelling risks\* to enable victims of an earthquake who have lost their homes or property to rebuild their life. Responding to this demand, the non-life insurance business continued to study ways to build such a system.

The Niigata Earthquake of June 1964 prompted efforts to establish the system. The government and the non-life insurance industry conducted a detailed examination of the earthquake insurance system, ultimately leading to the Law concerning Earthquake Insurance. The system for earthquake insurance on dwelling risks was built based on this law and Japan Earthquake Reinsurance Co., Ltd. (JER) was established. We play a key role in taking on full responsibility with the reinsurance of earthquake insurance contracts entered into by non-life insurance companies.

## MECHANISM OF THE EARTHQUAKE INSURANCE SYSTEM

Earthquake insurance is arranged as an optional rider to fire insurance which covers buildings for residential use and/or personal property. Earthquake insurance cannot be purchased on its own. If you conclude a fire insurance contract without earthquake insurance, you are required to seal the earthquake insurance check column of the fire insurance contract application form. If you have entered into a fire insurance contract without earthquake insurance, you will be able to purchase earthquake insurance while your fire insurance contract is valid. In some areas, however, if an announcement warning of an earthquake has been made, you may not be able to purchase earthquake insurance.

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\* 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 yen or more per piece, currency, securities (checks, share certificates, gift certificates), certificates of deposit, revenue stamps, postal stamps, automobiles and certain other items.

## TERM INSURED

Short-term, one year and long-term (two to five years)

## AMOUNT INSURED

The policyholder is required to set the amount insured under earthquake insurance within a range of 30-50% of the amount of insurance provided by his/her fire insurance. However, the amount insured is limited to a maximum of 50 million yen for a building\*\* and 10 million yen for personal property.

\* Fire insurance

Ordinary fire insurance, long-term comprehensive insurance, deposit life comprehensive insurance, dwelling fire insurance, householders' comprehensive insurance, storekeepers' comprehensive insurance and certain other types of insurance.

\*\* The amount insured of a condominium building such as apartment building is limited to 50 million yen, totaling exclusive areas and common areas.

## PAYMENT OF INSURANCE CLAIMS

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 theft of the objects of the insurance
- Loss or damage due to war or insurrection
- Loss or damage occurring ten days or more after the earthquake
- Loss or damage caused only to gates, walls, fences, and other parts that are not major structural parts.

\* Current price

The current price is such that the amount of depreciation according to the service year is deducted from the price of a new building.





## LIMIT OF TOTAL AMOUNT OF INSURANCE CLAIMS TO BE PAID

Limit of total amount of insurance claims to be paid\* is limited to 6,200 billion yen as revised in April 6, 2012 per earthquake, etc.. (On the same day, the liability limits of JER, non-life insurance companies and the government, as well as the methods of determining the burden of liabilities, were revised. Please refer to page 22 for the details.) 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 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 premium rate actually applied is calculated by multiplying the basic rate of the insurance premium that is set according to the structure of the residential building and the residential building to accommodate personal property that are subject to insurance and the building location, by a discount rate set according to the earthquake-resistance capability (for which certain confirmation documents are required).

\* *Limit of total amount of insurance claims to be paid*

The Law concerning Earthquake Insurance stipulates that the limit to the total insurance claims payable by the government and private insurance company per earthquake, etc.. For details, see page 22 Insurance liabilities held by JER, non-life insurance companies and the government.

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

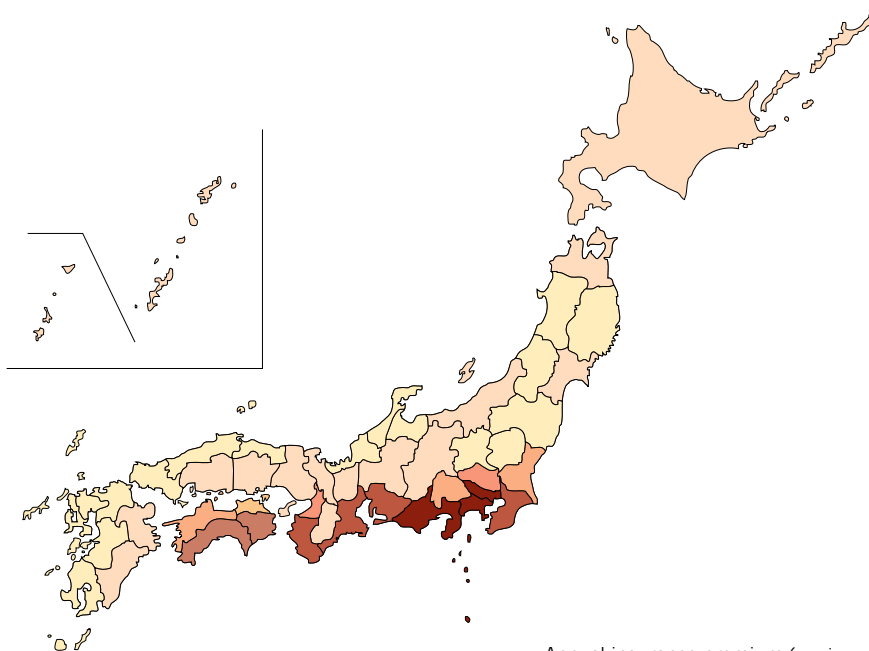
An organization established in accordance with the Law concerning Non-Life Insurance Rating Organizations, which aims to provide a fair basis premium rate applicable to non-life insurance.

\*\*\* *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.

## 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.



Annual insurance premium (per insurance year)/  
amount insured (thousand yen of earthquake insurance)

(Unit: yen)

Non-wooden	Wooden	With cost easing measures	Prefecture
0.5	1.00	0.65	Iwate-ken, Akita-ken, Yamagata-ken, Fukushima-ken, Tochigi-ken, Gunma-ken, Toyama-ken, Ishikawa-ken, Fukui-ken, Tottori-ken, Shimane-ken, Yamaguchi-ken, Fukuoka-ken, Saga-ken, Nagasaki-ken, Kumamoto-ken, Kagoshima-ken
0.65	1.27	0.84	Hokkaido, Aomori-ken, Miyagi-ken, Niigata-ken, Nagano-ken, Gifu-ken, Shiga-ken, Kyoto-fu, Hyogo-ken, Nara-ken, Okayama-ken, Hiroshima-ken, Oita-ken, Miyazaki-ken, Okinawa-ken
0.65	1.56	0.84	Kagawa-ken
0.91	1.88	1.18	Ibaraki-ken, Yamanashi-ken, Ehime-ken
1.05		1.36	Saitama-ken, Osaka-fu
0.91	2.15	1.18	Tokushima-ken, Kochi-ken
1.69	3.06	2.19	Chiba-ken, Aichi-ken, Mie-ken, Wakayama-ken
	3.13		Tokyo-to, Kanagawa-ken, Shizuoka-ken



## 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%

#### \* Seismic isolated building

A seismic isolated building is a building that is assessed to be a seismic isolated building in accordance with the related indicators in the Japanese Housing Performance Designation Standards under the Housing Quality Guarantee Law.

#### \*\* Earthquake-resistance class

The earthquake-resistance class of a residential building is an indicator of earthquake resistance as stipulated in the Japanese Housing Performance Designation Standards based on the Housing Quality Guarantee Law. It is also used to evaluate a building for earthquake resistance as provided for in the assessment guidelines for earthquake-resistance diagnosis based on the earthquake-resistance class (as to the body of the building) established by the Ministry of Land, Infrastructure and Transport. A description of the classes is as follows.

#### Earthquake-Resistance Class 3

A class suggesting that the building will not topple or collapse against a force that is 1.5 times stronger than the force of an earthquake (as provided for in Paragraph 3, Article 88, Enforcement Order of the Construction Standard Act) that occurs very rarely (once every some hundred years)

#### Earthquake-Resistance Class 2

Class suggesting that the building will not topple or collapse against a force 1.25 times stronger than the force of an earthquake that occurs very rarely

#### Earthquake-Resistance Class 1

Class suggesting that the building will not topple or collapse against that force of earthquake that occurs very rarely

**(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:

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

\* *Earthquake-resistance capacity*

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



### 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%

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

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

\* Proportion Insured

The insured earthquake amount as a percentage of the insured fire amount. The insured earthquake amount should be 30-50% of the insured fire amount.

### INCOME TAX CREDIT SYSTEM FOR EARTHQUAKE INSURANCE

In the tax system revision in fiscal 2006, the old income tax credit for non-life insurance was revised, and an income tax credit for earthquake insurance was established to support self-help efforts of the public in preparation for earthquake damages. As the revision enables deductions of up to 50,000 yen and 25,000 yen from the gross income, etc. for the purposes of income tax and the local inhabitant tax, respectively, the purchase of an earthquake insurance policy became easier.

# REINSURANCE OF EARTHQUAKE INSURANCE

## MECHANISM OF REINSURANCE

In the event that a major earthquake happens, it can result in large payouts of insurance claim by insurance companies. Because there is a certain limit, however, to the ability of these companies to make payments, the government shares insurance responsibility with them through reinsurance.

JER reinsures the earthquake insurance contracts underwritten by non-life insurance companies to take on full liability, which we homogenize before we pass on the risk proportionally to the non-life insurance companies and the government by retrocession according to the limit indemnity. We take up the remaining indemnity.

## MECHANISM OF PAYMENT OF INSURANCE CLAIMS

The policyholder claims insurance money to the non-life insurance company when the policyholder suffers a certain loss or damage as a result of an earthquake, etc., and the company will pay insurance claim to the policyholder.

The non-insurance company which paid an insurance claim to the policyholder will claim the full amount from JER through reinsurance. JER will pay the reinsurance claim in full to the non-life insurance company.

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

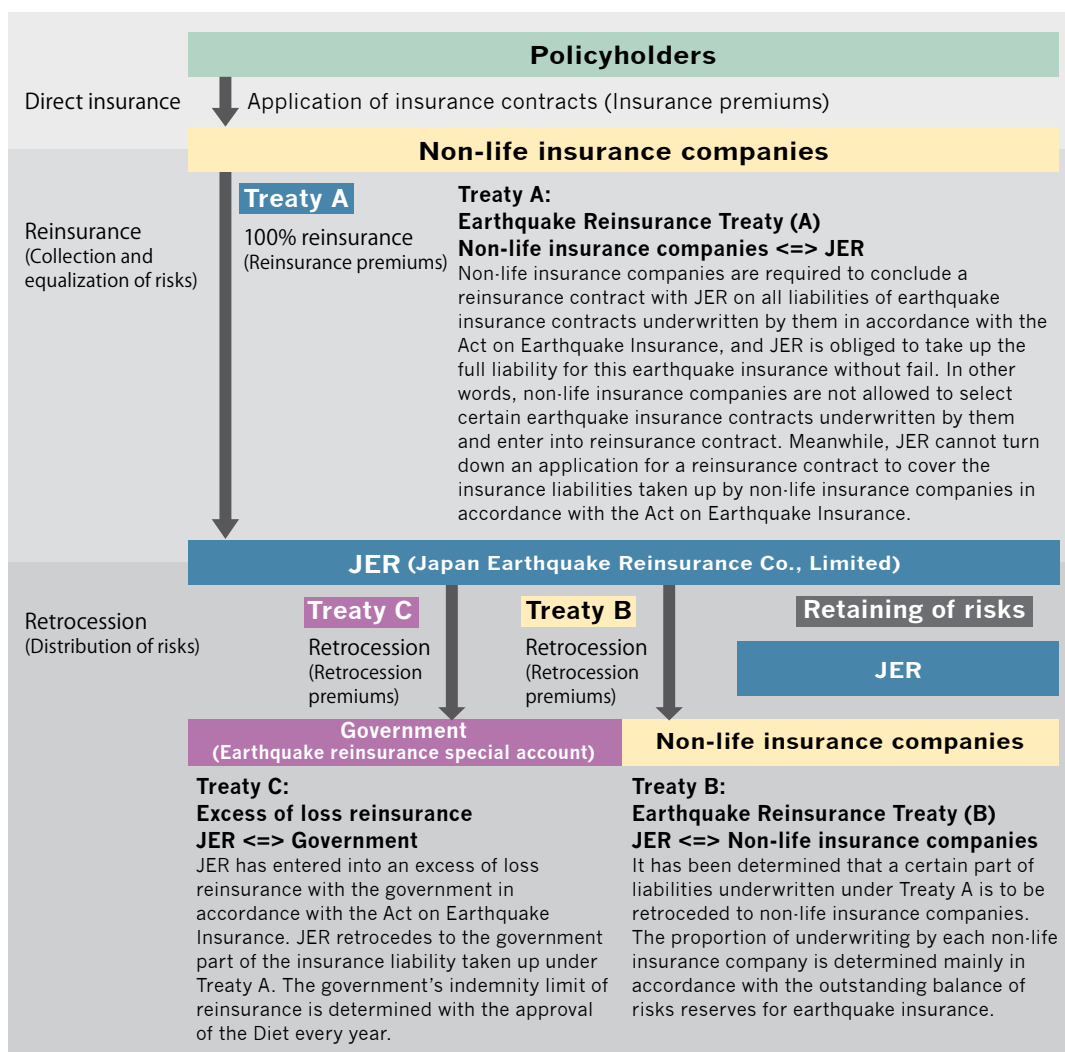
When a major earthquake occurs, a non-life insurance company must make a large amount of money ready so that it can pay a large number of insurance claims. To avoid problems in paying insurance claims, the government has set forth a ministerial ordinance that covers the payment of reinsurance claims pertaining to earthquake insurance based on a rough estimate, and promptly pays reinsurance claims based on a rough estimate (makes a provisional payment) through JER.



## FLOWCHART OF REINSURANCE

To enable the government, non-life insurance companies and JER to share insurance liabilities in an equitable manner, it is necessary to first collect and standardize evenly the risks non-life insurance companies underwrote, and then distribute them to the relevant organizations. It is also necessary to receive insurance premiums (reinsurance and retrocession premiums) as compensation for taking on insurance liabilities. To collect, evenly standardize and distribute risks and to give and take insurance premiums (reinsurance and retrocession premiums), reinsurance transactions are conducted, centered on JER.

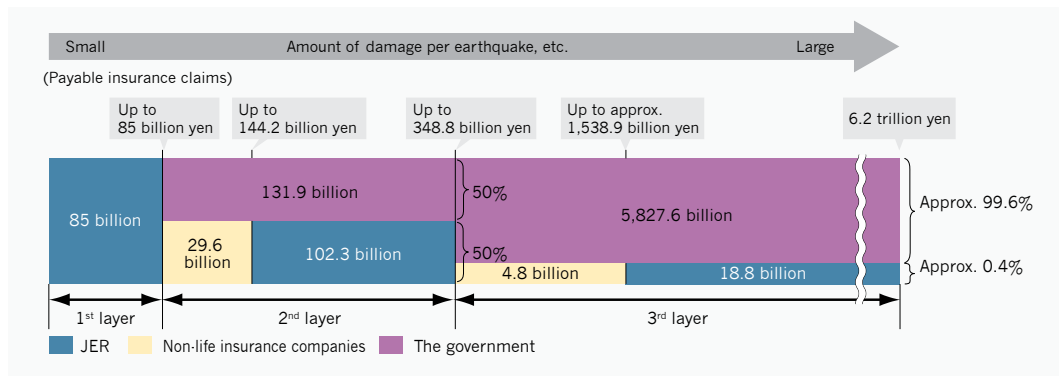
JER first reinsures earthquake insurance contracts that were underwritten by non-life insurance companies, and then divides the risks evenly. After excluding the risks held by JER, JER implements retrocession against the government and non-life insurance companies in accordance with the burden of risks taken on by each organization.



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

The limit of the total amount of insurance claims to be paid per earthquake, etc. is set in advance. This system is designed so that, even in the event of an earthquake as devastating as the Great Kanto Earthquake, insurance claims can be paid without problems. The current limit of total amount of insurance claims to be paid is set at 6.2 trillion yen. This is the reinsurance scheme that shows how JER, non-life insurance companies and the government share and limit insurance liabilities within the limit of the total amount of insurance claims to be paid per earthquake.

### REINSURANCE SCHEME (APPLICABLE TO EARTHQUAKE, ETC. THAT TAKE PLACE AFTER MAY 16, 2013)



### LIABILITY LIMIT

JER	206.1 billion yen
Non-life insurance companies	34.4 billion yen
The government	5,959.5 billion yen

JER pays insurance claims up to 85 billion yen (1st layer) per earthquake, etc. The government and others (non-life insurance companies and JER) share equally insurance claims for the portion exceeding 85 billion yen, up to 348.8 billion yen (2nd layer). The government pays a majority of insurance claims (approximately 99.6%) for the portion exceeding 348.8 billion yen (3rd layer). In portions of insurance claims to be paid by non-life insurance companies in the 2nd and 3rd layers, the first part represents insurance claims to be paid by non-insurance companies and the second part by JER.

In this way, in cases where insurance claims per earthquake, etc. exceed a certain amount, excess liabilities are shared by the relevant organizations. This is called the excess of the loss reinsurance.





## EXAMPLES OF INSURANCE CLAIMS TO BE PAID BY JER, NON-LIFE INSURANCE COMPANIES AND THE GOVERNMENT

Suppose that insurance claims amounting to 2 trillion yen for losses or damages associated with a single earthquake are to be paid. JER, non-life insurance companies and the government will pay each in the following amount:

(Unit: billion yen)

Claims paid				
	Portion up to 85 billion yen	Portion over 85 billion yen, and up to 348.8 billion yen	Portion over 348.8 billion yen, and up to 2,000 billion yen	Total
A person of burden				
Non-life insurance companies	85.0	131.9	About 6.7	About 223.6
The government	—	131.9	About 1,644.5	About 1,776.4
Total	85.0	263.8	1,651.2	2,000.0

## THE BALANCE OF RISK RESERVES AT JER AND NON-LIFE INSURANCE COMPANIES AND THE GOVERNMENT LIABILITY RESERVES AT THE END OF FISCAL 2012

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. Additionally, it is necessary for all investment profits from these accumulated liability reserves to also be accumulated as liability reserves. In the event that an earthquake occurs and causes losses or damages, each of JER, non-life insurance companies and the government pays an insurance claim according to each liability as stipulated in the reinsurance scheme by withdrawing from reserves.

JER	352.8 billion yen
Non-life insurance companies	68.7 billion yen
The government	962.3 billion yen
Total	1,383.8 billion yen

Note 1: The risk reserves by the non-life insurance companies include the amount equivalent to deferred tax assets due to tax effect accounting.

2: Government reserves will be finalized when the settlement for fiscal 2012 is approved by the Diet.

# RESPONSE TO THE GREAT EAST JAPAN EARTHQUAKE

At 2:46 p.m. on March 11, 2011, the largest earthquake in recorded Japanese history, with a magnitude of 9.0 on the Richter scale, struck off the coast of Sanriku, causing unprecedented damage to the Tohoku and Kanto regions, with violent tremors and a massive tsunami. The Japan Meteorological Agency named this earthquake, “The 2011 off the Pacific coast of Tohoku Earthquake,” while the Japanese government decided to collectively call the disaster “The Great East Japan Earthquake,” which referred to the damage caused by the earthquake, the subsequent tsunami, and aftershocks.

Responding to this devastating disaster, the non-life insurance industry and the Japanese government were united to take initiatives to promptly and steadily make insurance payouts to support the reconstruction of the lives of policyholders.

## SUMMARY OF THE GREAT EAST JAPAN EARTHQUAKE

### Outlook of the Earthquake

(i) Date and Time: Friday, March 11, 2011, 14:46 JST (05:46 UTC)

(ii) Hypocenter: Sanriku-oki (N38.1, E142.5)

(iii) Depth: 24 km

(iv) Magnitude: 9.0

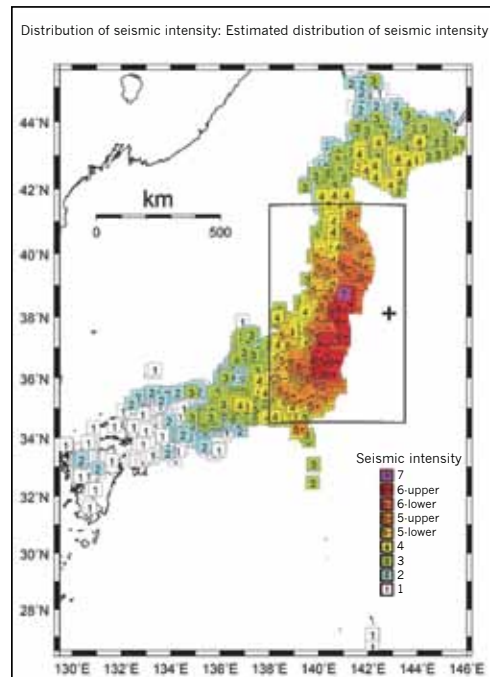
(v) JMA Seismic Intensity:

The intensity of 7 was recorded in Kurihara City, Miyagi Prefecture, and the intensity of a 6-upper was recorded in 34 cities and towns in four prefectures of Miyagi, Fukushima, Ibaraki and Tochigi, in addition to a wide area of Japan from Hokkaido to Kyushu, mainly in the eastern part of Japan, where the intensity of between a 6-lower and 1 was recorded.

(vi) Number of aftershocks:

The number of aftershocks so far (as at noon, March 8, 2012) is as follows.

Maximum seismic intensity	No. of aftershocks
6-upper	2
6-lower	2
5-upper	10
5-lower	33
4	184



Sources: “Monthly Report on Earthquakes and Volcanoes in Japan, March 2011” of the Japan Meteorological Agency



### Summary of damage (as of March 11, 2013)

(i) Casualties:	Death:	18,493 people
	Missing:	2,683 people
	Injured:	6,217 people
(ii) Residential damage:	Total collapse:	128,801 houses
	Half collapse:	269,675 houses
	Partially collapse:	756,814 houses

\* Prepared by JER based on “Monthly Report on Earthquakes and Volcanoes in Japan, March 2011” of the Japan Meteorological Agency and “The 2011 off the Pacific coast of Tohoku Earthquake (the Great East Japan Earthquake) (No. 147)” of the Fire and Disaster Management Agency

## INITIATIVES TAKEN IN THE WAKE OF THE GREAT EAST JAPAN EARTHQUAKE

### 1. Initiatives taken by the non-life insurance industry

To carry out the social mission of earthquake insurance, “Contribute to establishing a stable living for the victims,” the General Insurance Association of Japan (the “GIAJ”) established an “Earthquake Insurance Central Command,” and the non-life insurance industry united across all member companies to take the initiatives described below. As a result, as of May 31, 2012, the overall non-life insurance industry paid earthquake insurance of approximately 1,234.5 billion yen.

#### (1) Enhancement of information provision to customers

The GIAJ prepared posters (approximately 80,000 sheets) and leaflets (approximately 546,000 copies) that presented inquiry addresses and telephone numbers of non-life insurance companies, and presented and distributed them mainly to municipal government offices and evacuation centers. It also published a list of inquiry addresses of member companies in 18 newspapers, while it broadcast 500 radio commercial messages about the inquiry addresses of the GIAJ, and released advertising (on 12 regional television stations in affected areas) to encourage policyholders to make earthquake insurance claims. Moreover, it introduced special measures to the no-entry zone and other areas in the wake of the accident at the Fukushima Daiichi Nuclear Power Plant, and published payments of earthquake insurance in two newspapers in Fukushima Prefecture.

#### (2) Strengthening support for customers who are unsure about their insurance companies

The GIAJ established an “the Center for Searching Earthquake Insurance Contracts” for customers who were unsure about which insurers their earthquake insurance and other non-life insurance contracts were concluded with because they had lost their insurance policies, due to the disaster and other reasons. It helped confirm customers’ non-life insurance companies through the specially designated free telephone services and the web page. In the same manner, each member company also dealt with inquiries from customers who were unsure about their insurance companies.

### (3) Prompt insurance payouts by streamlining loss confirmation procedures and survey of earthquake insurance

Because the tsunami and fires caused losses across large areas of the coastal regions in Iwate, Miyagi and Fukushima prefectures, non-life insurance companies carried out a joint loss survey, in what was an industry's first. Non-life insurance companies identified areas with the same level of losses through the joint survey, and identified areas that had sustained devastating damage from the disaster as "total loss areas" using aerial and satellite photography as well as tours of the areas themselves. As a result, by waiving the need for onsite inspections, member companies promptly paid total earthquake insurance claims for earthquake insurance contracts in total loss areas. To facilitate claims by customers, the GIAJ also published the total loss area on its website.

### (4) Simpler procedures for earthquake insurance claims

In conducting an earthquake loss survey on wooden buildings and on furniture in such buildings, in addition to onsite inspections, non-life insurance companies adopted a loss inspection in which, provided certain requirements are met, onsite inspections are waived and the loss is inspected based on photos taken by customers and other self-reported documents. They also conducted inspections based on self-reported documents for claims in the no-entry zone and other areas where entries were limited in the wake of the accident at the Fukushima Daiichi Nuclear Power Plant.

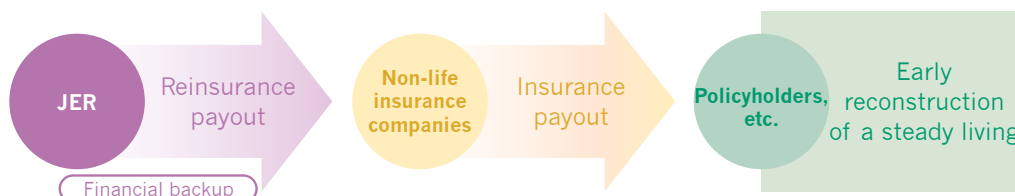
### (5) Donation of the relief money

To help support people in the areas affected by the Great East Japan Earthquake, the GIAJ received donations from 26 member companies and donated relief money of 1 billion yen to the Japanese Red Cross Society.

## 2. Initiatives taken by JER

### JER's mission and role in the face of major disasters

Our mission in the face of major disasters is to financially facilitate prompt insurance payouts by non-life insurance companies through "reinsurance payouts" to support the early reconstruction of the lives of policyholders in the afflicted areas.





## Prompt reinsurance payment

To promptly make reinsurance payouts to non-life insurance companies, we established an Earthquake Disaster Countermeasures Headquarters on the day the Great East Japan Earthquake took place, and took steps to promptly secure funds and make reinsurance payouts based on approximate projections, in cooperation with non-life insurance companies and the government. As a result, we made reinsurance payouts of approximately 1,243.9 billion yen for approximately 760,000 policies<sup>(Note)</sup> by the end of March 2013.

(Note) The figures do not include reinsurance payouts related to aftershocks and other earthquakes.

### — Securing funds promptly

- ✓ Preparation of approximately 322.4 billion yen in cash by selling assets within 20 days of the occurrence of the earthquake (March 31, 2011).
- ✓ Receipt of reinsurance payouts of approximately 426.8 billion yen (based on approximate projections) from the government within 73 days of the occurrence of the earthquake (May 23, 2011).

Because the earthquake insurance system is a system whose income and expenditures are designed to be balanced out after a long period of time, all premiums received, after deducting necessary expenses, are individually set aside as reserves by non-life insurance companies and the government.

Insurance claims paid to policyholders affected by the earthquake were funded from these reserves. To promptly secure funds for reinsurance payouts to non-life insurance companies, we quickly started to sell our reserve assets from the first business day after the occurrence of the earthquake. At the same time, cooperating with the government, we flexibly requested the government's reinsurance payouts and implemented procedures for receiving the payments.



### — Reinsurance payouts based on approximate projections

- ✓ Provision of funds of approximately 968.6 billion yen to non-life insurance companies within 75 days of the earthquake (May 25, 2011).

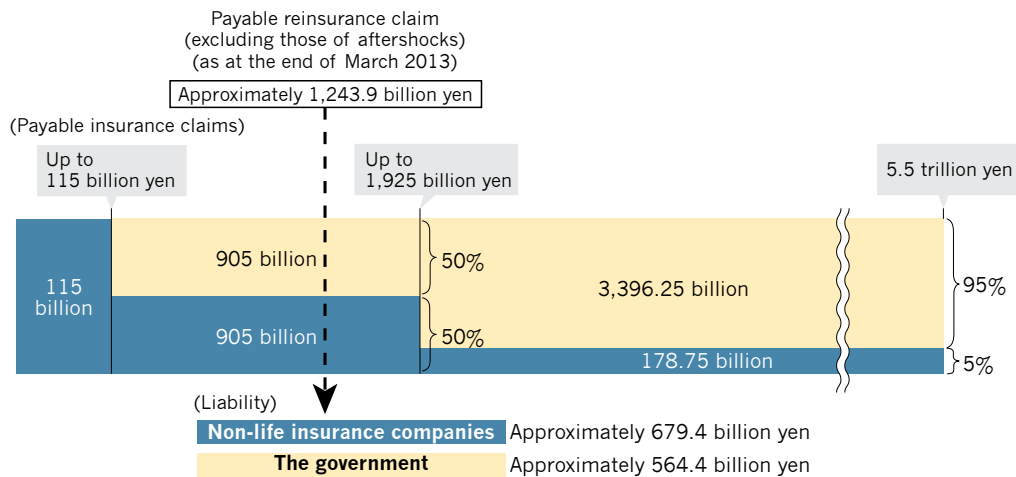
To facilitate prompt insurance payouts by non-life insurance companies to policyholders, we made reinsurance payouts based on approximate projections for the first time since the establishment of Japan's earthquake insurance system.

Payments based on approximate projections is a system in which estimated reinsurance payouts based on rough projections on the amount of damage incurred by the relevant earthquake. The system is designed to make it possible to provide in advance the funds necessary for insurance payouts to non-life insurance companies before they actually pay insurance claims to policyholders who are afflicted by an earthquake.

## STATUS OF THE BURDEN OF LIABILITIES ASSOCIATED WITH THE GREAT EAST JAPAN EARTHQUAKE

The reinsurance scheme for the Great East Japan Earthquake and the share of liabilities for the damage from the earthquake between non-life insurance companies and the government are as follows:

### Reinsurance scheme at the time when the Great East Japan Earthquake took place (from April 1, 2009 to May 1, 2011)



### LIABILITY LIMIT

Non-life insurance companies (including JER)	1,198.75 billion yen
The government	4,301.25 billion yen
Total	5,500.00 billion yen

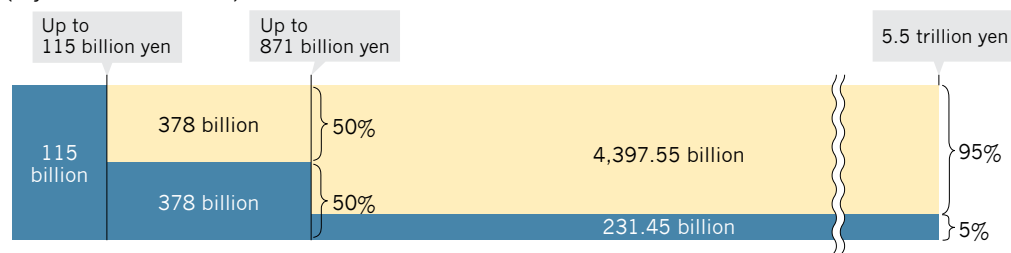


## MODIFICATION OF THE REINSURANCE SCHEME AFTER THE GREAT EAST JAPAN EARTHQUAKE

Reserves of non-life insurance companies noticeably decreased with the burden of liabilities after the Great East Japan Earthquake. As a result, to reinforce the continuity and the stability of the scheme to deal with large-scale earthquakes in the future, the reinsurance scheme was revised on May 2, 2011, as shown below.

### Reinsurance scheme after the Great East Japan Earthquake took place (from May 2, 2011 to April 5, 2012)

(Payable insurance claims)



### LIABILITY LIMIT

Non-life insurance companies (including JER)	724.45 billion yen
The government	4,775.55 billion yen
<b>Total</b>	<b>5,500.00 billion yen</b>

Note: Please refer to page 22 for information on the mechanism of reinsurance and the latest reinsurance scheme.

## STATUS OF REINSURANCE PAYMENTS ASSOCIATED WITH THE GREAT EAST JAPAN EARTHQUAKE

(As of March 31, 2013)

### BY PREFECTURES

Region	No. of policies	Reinsurance claims (million yen)
Hokkaido	1,204	1,354
Tohoku	Aomori	5,072
	Iwate	57,389
	Miyagi	555,569
	Akita	1,190
	Yamagata	2,933
	Fukushima	158,063
	<b>Subtotal</b>	<b>358,638</b>



Region		No. of policies	Reinsurance claims (million yen)
Kanto, Koshinetsu, Shizuoka	Ibaraki	105,129	155,145
	Tochigi	37,601	43,839
	Gunma	8,519	7,489
	Saitama	35,893	27,945
	Chiba	92,542	112,632
	Tokyo	96,531	91,047
	Kanagawa	21,881	18,942
	Niigata	1,460	1,300
	Yamanashi	3,686	2,422
	Nagano	354	487
	Shizuoka	976	735
Subtotal		404,572	461,987
Other prefectures		378	343
Total		764,792	1,243,904

Note 1: The number of policies represents the number of insurance policies of earthquake insurance contracts, under which insurance claims were paid.

2: The figures do not include reinsurance payouts related to aftershocks.

## BY PROPERTIES AND LOSS CATEGORIES

### Tohoku region

	Buildings		Personal property		Total	
	No. of properties	Reinsurance claims (million yen)	No. of properties	Reinsurance claims (million yen)	No. of properties	Reinsurance claims (million yen)
Total loss	22,822	206,120	13,135	43,283	35,957	249,404
Half loss	64,465	301,433	75,480	120,715	139,945	422,148
Partial loss	191,258	101,019	46,112	7,647	237,370	108,666
Total	278,545	608,572	134,727	171,646	413,272	780,219

### Non-Tohoku region

	Buildings		Personal property		Total	
	No. of properties	Reinsurance claims (million yen)	No. of properties	Reinsurance claims (million yen)	No. of properties	Reinsurance claims (million yen)
Total loss	4,981	46,549	683	2,218	5,664	48,768
Half loss	33,112	158,324	34,312	60,839	67,424	219,163
Partial loss	297,895	177,966	95,911	17,787	393,806	195,753
Total	335,988	382,839	130,906	80,845	466,894	463,685

Note 1: The number of properties represents the number of properties (by building and personal property) under the earthquake insurance contracts, whose insurance claims were paid.

2: The figures do not include reinsurance payouts related to aftershocks.



# STATISTICS

## REINSURANCE CLAIMS PAID IN FISCAL 2012

Reinsurance claims paid in fiscal 2012 amounted to 55.8 billion yen, including earthquake reinsurance claims paid to cover the 2011 off the Pacific coast of Tohoku Earthquake. In terms of numbers, 64,412 claims were paid (on the basis of insurance policies). See below for major claims paid per earthquake.

Earthquake (Region name)	Date of occurrence	Magnitude	No. of policies	Reinsurance claims paid (million yen)
1. The 2011 off the Pacific coast of Tohoku	March 11, 2011	9.0	53,971	48,553
2. Miyagi-ken-oki	April 7, 2011	7.2	2,630	1,797
3. Chiba-ken Toho-oki	March 14, 2012	6.1	1,620	1,235
4. Sanriku-oki	December 7, 2012	7.3	1,235	720
5. Shizuoka-ken Tobu	March 15, 2011	6.4	544	547
Other earthquakes	—	—	4,412	3,029
Total	—	—	64,412	55,883

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

Earthquake (Region name)	No. of households (A) (1,000 households)	No. of 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	24,242	7,680	65,412,916	31.7	Nearly 0%–2%
Tokyo metropolitan	17,121	5,574	46,844,817	32.6	About 70%
Nankai trough	41,506	12,219	104,283,353	29.4	60%–70%

Note 1: The figures were prepared by JER by focusing on the main prefectures affected by earthquakes based on the latest loss estimates prepared by the Non-Life Insurance Rating Organization of Japan.

2: The probability that an earthquake could occur within the next 30 years is based on the 2013 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.

## TOP 20 EARTHQUAKES AS TO REINSURANCE CLAIMS PAID

See the table below for the top 20 earthquakes with respect to reinsurance claims paid since the earthquake insurance was established.

(As of March 31, 2013)

Earthquake (Region name)	Date of occurrence	Magnitude	No. of policies	Reinsurance claims paid (million yen)
1. The 2011 off the Pacific coast of Tohoku	March 11, 2011	9.0	764,792	1,243,904
2. Hyogo-ken Nanbu	January 17, 1995	7.3	65,427	78,346
3. Miyagi-ken-oki	April 7, 2011	7.2	30,750	32,185
4. Fukuoka-ken Seiho-oki	March 20, 2005	7.0	22,031	16,943
5. Geiyo	March 24, 2001	6.7	24,450	16,940
6. Niigata-ken Chuetsu	October 23, 2004	6.8	12,607	14,897
7. Niigata-ken Chuetsu-oki	July 16, 2007	6.8	7,861	8,246
8. Fukuoka-ken Seiho-oki	April 20, 2005	5.8	11,335	6,428
9. Tokachi-oki	September 26, 2003	8.0	10,552	5,990
10. Iwate-Miyagi Nairiku	June 14, 2008	7.2	8,276	5,545
11. Suruga-wan	August 11, 2009	6.5	9,423	5,093
12. Shizuoka-ken Tobu	March 15, 2011	6.4	4,935	4,270
13. Iwate-ken Engan Hokubu	July 24, 2008	6.8	7,754	3,972
14. Fukushima-ken Hamadori	April 11, 2011	7.0	2,316	3,624
15. Nagano-ken Chubu	June 30, 2011	5.4	2,882	3,246
16. Tottori-ken Seibu	October 6, 2000	7.3	4,078	2,868
17. Noto Hanto	March 25, 2007	6.9	3,303	2,729
18. Miyagi-ken Hokubu	July 26, 2003	6.4	2,543	2,172
19. Miyagi-ken-oki	May 26, 2003	7.1	2,970	1,918
20. Miyagi-ken-oki	August 16, 2005	7.2	2,793	1,551

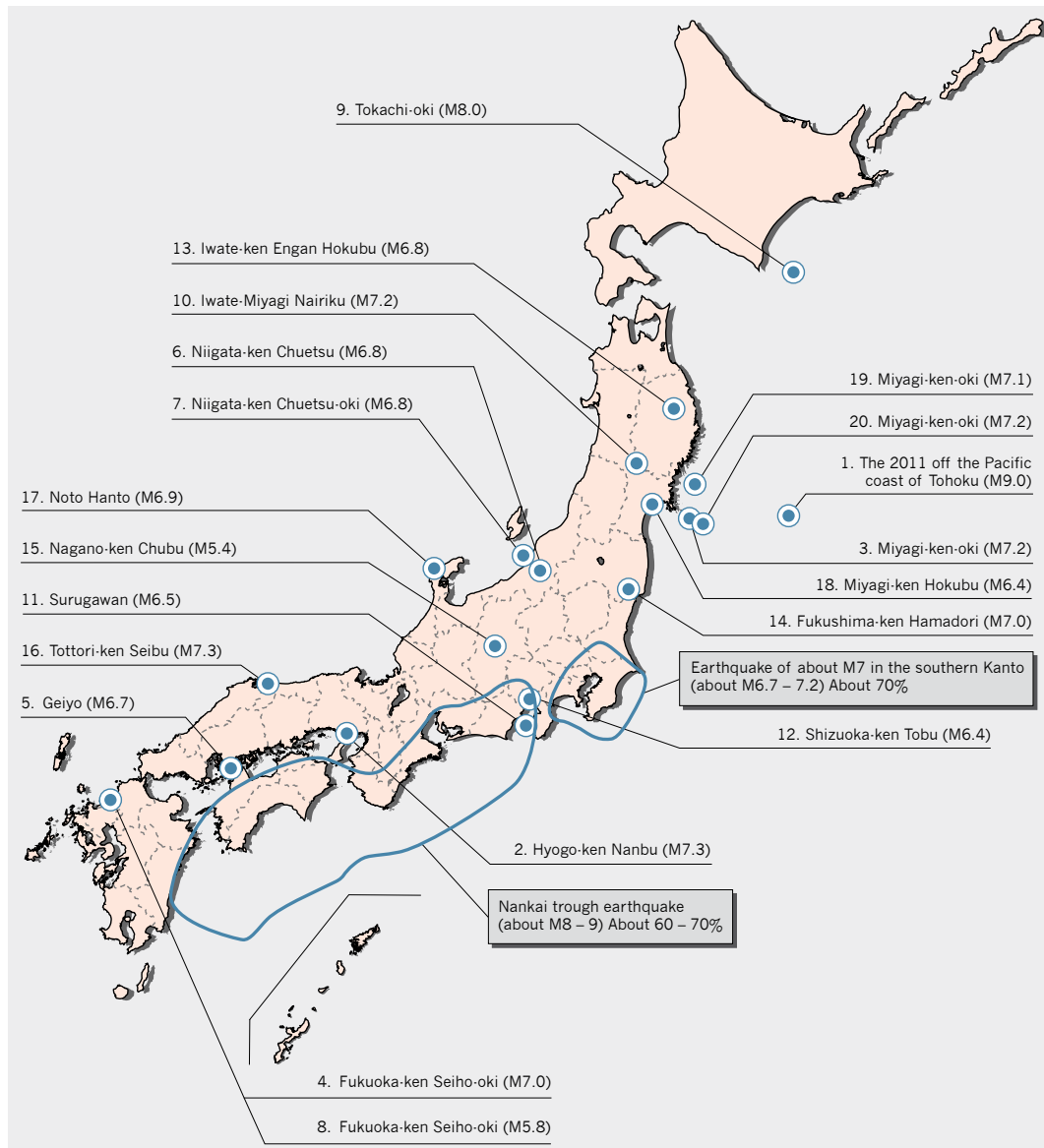
Note 1: After the 2011 Great East Japan Earthquake, in accordance with our reinsurance scheme at the time, the government paid 564,452 million yen and private non-life insurance companies paid 679,452 million yen.

Note 2: After the Hyogo-ken Nanbu Earthquake in 1995, in accordance with our reinsurance scheme at the time, the government paid 6,173 million yen and private non-life insurance companies paid 72,173 million yen.



Below are the epicenters and magnitudes of the top 20 earthquakes for which we paid reinsurance claims in the past. The number attached to the name of the earthquake is in order of payment amount.

As a reference, the epicenter area and the probability that an earthquake with a magnitude of about 7 in southern Kanto, the Nankai Trough earthquake could occur within the next 30 years announced by the Headquarters for Earthquake Research Promotion of the government are also included.



## Financial Section

### **Financial Review**

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

#### **Summary of Operations**

#### **Accounting Concepts**

1. Financial statements
2. Details of assets and liabilities
3. Income and loss details
4. Information about fair values, etc.

## FINANCIAL REVIEW

### Business development, results, etc.

During fiscal 2012, the Japanese economy showed signs of a gradual recovery, mainly reflecting the demand for reconstruction projects in the aftermath of the 2011 Great East Japan Earthquake. However, the Japanese economy still continued to face uncertain conditions, given the slowdown in the global economy due to the European debt problem, the drop in exports resulting from the worsening relationship between Japan and China, and other negative factors. Despite this environment, with the recent recovery in the US economy, along with the weaker yen and higher stock prices reflecting expectations for positive developments as a result of the monetary easing policy in Japan, the economy began to show signs of bottoming out.

Both premiums as well as the number of earthquake insurance policies continued to increase during the fiscal year under review, just as they did in the previous fiscal year, due to the growing interest in earthquake insurance as security against earthquakes. Meanwhile, the amount of earthquake insurance payouts declined significantly from the previous fiscal year, as insurance payouts for the 2011 Great East Japan Earthquake peaked.

Regarding asset management, earnings from investments have declined markedly year on year, reflecting the increasing redemption of bonds with high yields amid the trend of declining interest rates.

In this environment, during fiscal 2012, the first year of our third medium-term business plan, in light of our experience from the 2011 Great East Japan Earthquake we have steadily implemented measures—mainly in response to massive earthquakes or consecutive earthquakes—and have reviewed and developed a structure that will allow our operations to continue even if our headquarters is stricken by a disaster. In particular, to ensure the continuity of our operations if our headquarters is afflicted by a disaster, we have comprehensively upgraded our system infrastructure in preparation for the imminent inland earthquake expected to strike the Tokyo metropolitan area, and the system is now fully operational.

### Summary of earthquake insurance results

#### ① Net premiums written and net claims paid

In the fiscal year under review, due to the increase in the number of earthquake insurance contracts, net premiums written amounted to 92.9 billion yen (up 11.1% year on year).

Meanwhile, net claims paid came to 31.6 billion yen (down 83.9% year on year), mainly reflecting the effects of the 2011 Great East Japan Earthquake.

#### ② Risk reserves and underwriting reserves

Risk reserves added amounted to 48.0 billion yen (up 9.4% year on year), which is the total of net premiums written of 45.0 billion yen, given by deducting assumed reinsurance commissions from net premiums written, and a profit of 3.0 billion yen from investments.

Risk reserves at the end of the fiscal year under review were 352.8 billion yen (up 6.4% year on year), reflecting the reversal of the provision for outstanding claims of 9.9 billion yen to risk reserves and drawing from risk reserves in the past year of net claims paid of 31.6 billion yen, loss adjustment expenses of 4.8 billion yen, and advertising and publicity expenses of 0.2 billion yen.

Underwriting reserves at the end of the fiscal year under review totaled 461.4 billion yen (up 7.1% year on year), after adding unearned premium reserves and repayment reserves to the risk reserves.

In fiscal 2011, the amount of risk reserves provided fell short of the 0.2 billion yen that should have been provided, due to excessive income tax payments. As a result, in the fiscal year under review, we claimed for a correction and issued a restatement by increasing the balance of risk reserves and accounts receivable at the beginning of the term by 0.2 billion yen based on the estimated refund.

#### ③ Risk reserves of direct insurance companies

The risk reserves of direct insurance companies re-

corded as entrusted reserves were 68.7 billion yen for the fiscal year under review (up 9.5% year on year), obtained by adding net premiums written and profit from investments of 6.6 billion yen (down 59.9% year on year), reversing the publicity expenses of 0.7 billion yen.

### Outline of investments

Medium- to long-term domestic interest rates trended lower due to the escalation of the European debt problem and the delayed recovery of the US economy. Long-term interest rates declined sharply in the second half of the fiscal year under review, given growing expectations for a stronger monetary easing policy after the new administration that was instated in December asked the Bank of Japan to increase its monetary easing.

The yen fell noticeably against both the dollar and the euro, reflecting the deterioration of Japan's current account balance and expectations for the Bank of Japan to commence a significant monetary easing policy. As a result, the yen has depreciated approximately 12 yen against the dollar and approximately 11 yen against the euro from its rates at the end of the previous fiscal year.

In these circumstances, we invested in assets with the top priority placed on safety and liquidity, followed by profitability. As a result, pre-tax profits from investments amounted to 3.3 billion yen in the business account and 0.6 billion yen in the entrusted reserves account. Consequently, investment assets at the end of the year under review stood at 524.0 billion yen.

### Profit and loss for the fiscal year under review (Capital account)

Net income was 4 million yen after calculating interest and dividend income in the capital account and other items.

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

(Yen in millions)

Division	Fiscal Year	2008	2009	2010	2011	2012
Net premiums written		67,126	72,225	71,532	83,671	92,996
Percentage change over the previous term		4.8%	7.6%	(1.0%)	17.0%	11.1%
Ordinary income		84,993	99,464	175,903	286,812	110,370
Percentage change over the previous term		4.6%	17.0%	76.9%	63.1%	(61.5%)
Ordinary expenses		84,792	98,512	174,913	286,723	110,176
Percentage change over the previous term		4.3%	16.2%	77.6%	63.9%	(61.6%)
Ordinary profit		200	951	990	89	193
Percentage change over the previous term		1,108.8%	374.2%	4.1%	(91.0%)	117.5%
Net income (loss)		12	5	3	(5)	4
Percentage change over the previous term		184.1%	(58.9%)	(30.2%)	(239.9%)	-
Common stock		1,000	1,000	1,000	1,000	1,000
Sum of shares issued		2 mil. shares	2 mil. shares	2 mil. shares	2 mil. shares	2 mil. shares
Net assets		1,617	1,633	1,634	1,631	1,633
Total assets		1,015,053	1,092,272	1,154,108	509,498	536,808
Underwriting reserves		545,255	585,820	515,981	430,700	461,480
Percentage change over the previous term		5.8%	7.4%	(11.9%)	(16.5%)	7.1%
Of the balance, risk reserves		460,081	496,708	424,401	331,499	352,830
Percentage change over the previous term		6.0%	8.0%	(14.6%)	(21.9%)	6.4%
Loans		-	-	-	-	-
Percentage change over the previous term		-	-	-	-	-
Securities		953,118	1,006,947	805,223	448,120	476,979
Percentage change over the previous term		6.4%	5.6%	(20.0%)	(44.3%)	6.4%
Non-consolidated solvency-margin ratio		159.1%	161.6%	124.7%	120.8%	160.0%
Dividend propensity		-	-	-	-	-
No. of employees		28	26	25	26	27

### Notes:

- To achieve the stricter application of risk measurement and meet other goals, laws and regulations associated with the calculation of the non-consolidated solvency-margin ratio have been revised since the end of fiscal 2011 (March 31, 2012). Order to specify divisions, provided for in Paragraph 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. For details, see page 40 Conditions of non-consolidated solvency margin ratio.
- The figures for fiscal 2011 have been corrected by a retrospective restatement. The details are given in Note 8 for the balance sheet (page 42).

## SUMMARY OF OPERATIONS

Item: earthquake

### ① Indicators relating to insurance underwriting

#### 1. Net premiums written

(Yen in millions)

Division	Fiscal Year	2010	2011	2012
Premiums written		152,182	171,223	185,568
Return premiums		2,324	2,504	2,642
Assumed net premiums written (A)		149,634	168,676	182,895
Reinsurance premiums ceded (B)		78,102	85,005	89,899
Net premiums written (A-B)		71,532	83,671	92,996

### Notes:

- Return premiums: Return premiums of receiving reinsurance.
- Assumed net premiums: Produced by deducting return premiums from premiums written.
- Net premiums written: Produced by deducting the reinsurance premiums ceded from the assumed net premiums written.

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

Division	Fiscal Year	2010	2011	2012
Domestic contract		100%	100%	100%

#### 3. Net claims paid

(Yen in millions)

Division	Fiscal Year	2010	2011	2012
Assumed net claims paid (A)		1,033	1,240,600	55,883
Reinsurance claims recovered (B)		-	1,043,975	24,276
Net claims paid (A-B)		1,033	196,625	31,607

### Notes:

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

#### 4. Net loss ratio, net expense ratio and their combined ratio

(Yen in millions)

Division	Fiscal Year	2010	2011	2012
Net loss ratio		1.8%	282.9%	39.2%
Underwriting expenses		31,740	35,677	38,867
Insurance related operating, general and administrative expenses		503	551	725
Commissions and brokerage fees		31,236	35,126	38,141
Net expense ratio		44.4%	42.6%	41.8%
Combined ratio		46.2%	325.5%	81.0%

##### Notes:

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

#### 5. Rate of damage occurrence, the expenses ratio and rate of sum total before ceded insurance deduction

Not applicable

#### 6. Changes in ordinary income or loss against a rise in the loss rate

There are no changes in ordinary income or loss in earthquake insurance because increases in insurance payments are set off through the reversal of underwriting reserves in accordance of the principle of no loss and no profit.

#### 7. Underwriting profit

(Yen in millions)

Division	Fiscal Year	2010	2011	2012
Underwriting income		148,490	272,503	106,333
Underwriting expenses		147,002	271,872	105,420
Operating and general administrative expenses		503	551	725
Other income and expenses		(984)	(79)	(186)
Underwriting profit		-	-	-

##### Notes:

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 income and expenses are those equivalent to corporate taxes mentioned in a statement of earthquake insurance profits and losses.
3. The figures for fiscal 2011 have been corrected by a retrospective restatement.

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

Division	Fiscal Year	2010	2011	2012
No. of reinsurers that ceded insurance contracts		15	14	13
Rate of top five reinsurers' ceded insurance premiums		81.9%	81.8%	81.9%

##### Note:

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

#### 9. Ratio of ceded insurance premiums by rating

Not applicable

#### 10. Contractor dividend

Not applicable

#### 11. Conditions at the end of the current fiscal year (runoff result) of outstanding claims (estimated amount) at the beginning of the term

Not applicable to earthquake insurance.

#### 12. Amount of estimated final damages associated with the elapse of a period from the occurrence of accidents

Not applicable to earthquake insurance.

## ② 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 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. Total assets and investments assets

Division	Year	As of the end of fiscal 2010		As of the end of fiscal 2011		As of the end of fiscal 2012	
		Amount	Percentage distribution (%)	Amount	Percentage distribution (%)	Amount	Percentage distribution (%)
Deposits		10,409	0.9	17,190	3.4	25,938	4.8
Call loans		319,586	27.7	30,105	5.9	21,137	3.9
Monetary receivable bought		-	-	-	-	-	-
Money trusts		-	-	-	-	-	-
Securities		805,223	69.8	448,120	88.0	476,979	88.9
Buildings		37	0.0	35	0.0	33	0.0
Total of investments assets		1,135,256	98.4	495,450	97.3	524,088	97.6
Total assets		1,154,108	100.0	509,498	100.0	536,808	100.0

**Note:**

The figures for fiscal 2011 have been corrected by a retrospective restatement.

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

Division	Fiscal Year	2010			2011			2012		
		Amount of numerator	Amount of denominator	Yield on working assets (%)	Amount of numerator	Amount of denominator	Yield on working assets (%)	Amount of numerator	Amount of denominator	Yield on working assets (%)
Deposits		169	37,412	0.45	83	12,074	0.69	32	17,636	0.18
Call loans		20	35,101	0.06	46	94,217	0.05	8	18,067	0.05
Monetary receivables bought		-	-	-	-	-	-	-	-	-
Money trusts		(218)	12,604	(1.73)	-	-	-	-	-	-
Securities		15,676	1,011,852	1.55	9,127	488,267	1.87	4,548	473,767	0.96
Public and corporate bonds		6,121	589,258	1.04	3,253	273,696	1.19	1,711	325,550	0.53
Stocks		-	-	-	-	-	-	-	-	-
Foreign securities		9,898	419,477	2.36	5,874	214,570	2.74	2,837	148,217	1.91
Other securities		(343)	3,116	(11.01)	-	-	-	-	-	-
Loans		-	-	-	-	-	-	-	-	-
Buildings		-	40	-	-	37	-	-	35	-
Derivatives		17,035	-	-	8,358	-	-	(2,836)	-	-
Others		(19,572)	-	-	(10,599)	-	-	2,783	-	-
Total		13,112	1,097,011	1.20	7,016	594,596	1.18	4,536	509,507	0.89

**Notes:**

1. 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

2. Profit and loss from derivatives principally involve foreign exchange forward contracts with the remainder primarily involving currency exchange of foreign currency-denominated bonds. JER deals in foreign exchange forward contracts and other transactions for the purpose of hedging risks associated with foreign currency-denominated bonds.

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

Division	Fiscal Year	2010		2011		2012	
		Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
Deposits		169	0.45	83	0.69	32	0.18
Call loans		20	0.06	46	0.05	8	0.05
Monetary receivables bought		-	-	-	-	-	-
Money trusts		50	0.40	-	-	-	-
Securities		15,734	1.55	6,983	1.43	4,549	0.96
Buildings		-	-	-	-	-	-
Total		15,975	1.46	7,113	1.20	4,589	0.90

**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



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

(Yen in millions)

Division	2010			2011			2012		
	Amount of numerator	Amount of denominator	Yield on working assets (%)	Amount of numerator	Amount of denominator	Yield on working assets (%)	Amount of numerator	Amount of denominator	Yield on working assets (%)
Deposits	169	37,412	0.45	83	12,074	0.69	32	17,636	0.18
Call loans	20	35,101	0.06	46	94,217	0.05	8	18,067	0.05
Monetary receivables bought	-	-	-	-	-	-	-	-	-
Money trusts	(160)	12,546	(1.28)	-	-	-	-	-	-
Securities	7,870	1,028,090	0.77	5,349	496,699	1.08	4,067	478,421	0.85
Public and corporate bonds	3,563	595,176	0.60	1,821	277,057	0.66	1,666	327,480	0.51
Stocks	-	-	-	-	-	-	-	-	-
Foreign securities	4,385	430,061	1.02	3,527	219,641	1.61	2,401	150,940	1.59
Other securities	(78)	2,852	(2.77)	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-	-	-
Buildings	-	40	-	-	37	-	-	35	-
Derivatives	17,035	-	-	8,358	-	-	(2,836)	-	-
Others	(19,572)	-	-	(10,599)	-	-	2,783	-	-
Total	5,364	1,113,191	0.48	3,237	603,029	0.54	4,055	514,160	0.79

### Notes:

1. *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

2. Profit and loss from derivatives principally involve foreign exchange forward contracts with the remainder primarily involving currency exchange of foreign currency-denominated bonds. JER deals in foreign exchange forward contracts and other transactions for the purpose of hedging risks associated with foreign currency-denominated bonds.

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

(Yen in millions)

Division	Year	As of the end of fiscal 2010		As of the end of fiscal 2011		As of the end of fiscal 2012	
		Amount	Percentage distribution (%)	Amount	Percentage distribution (%)	Amount	Percentage distribution (%)
Foreign currency denominated							
Foreign public and corporate bonds		152,723	48.4	55,435	35.1	36,347	28.2
Yen denominated							
Foreign public and corporate bonds		162,901	51.6	102,638	64.9	92,494	71.8
Total		315,624	100.0	158,073	100.0	128,842	100.0
Yield on foreign loans & investments							
Investment assets yield (income yield)			2.41%		2.19%		1.91%
Assets management (realized yield)			2.36%		2.74%		1.91%
Market-price based overall yield (for reference)			1.02%		1.61%		1.59%

### Note:

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 investments.

### ③ Conditions of non-consolidated solvency-margin ratio

Division	Year	(Yen in millions)	
		As of the end of fiscal 2011	As of the end of fiscal 2012
Total amount of non-consolidated solvency-margin		336,786	357,917
Common stock, etc.		1,615	1,619
Price fluctuation reserves		6	5
Risk reserves		-	-
Catastrophe reserves		331,499	352,830
Reserves for ordinary bad debts		-	-
Unrealized gain / loss on available-for-sale securities (excluded deductions for Tax Consequences)		3,390	3,184
Unrealized gain and loss included land holdings		-	-
Surplus such as premium reserves		-	-
Funding instruments with a debt-like nature		-	-
Surplus such as premium reserves and funding instruments with a debt-like nature that are not included in the margin		-	-
Items deductible		-	-
Others		275	277
Total amount of non-consolidated risk $\sqrt{(R1 + R2)^2 + (R3 + R4)^2 + R5 + R6}$		557,215	447,267
General underwriting risk (R1)		-	-
Underwriting risk in third-area insurance (R2)		-	-
Anticipated rate of return risk (R3)		-	-
Investment risk (R4)		9,839	10,497
Management risk (R5)		10,925	8,769
Catastrophe risk (R6)		536,450	428,000
Non-consolidated solvency-margin ratio $\frac{(A)}{\{(B) \times 1 / 2\}} \times 100$		120.8%	160.0%

#### Notes:

- The amounts and figures above are calculated based on the provisions of Article 86 and Article 87 of the Enforcement Rules of the Insurance Business Act and the Ministry of Finance Official Notification No. 50 in 1996.
- The figures for fiscal 2011 have been corrected by a retrospective restatement.

#### Non-consolidated solvency-margin ratio

The non-life insurance companies 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 non-consolidated 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

- 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).
- Anticipated ratio of return risk:** the risk that may arise for saving-type insurance if the actual yield from operations is lower than it was when calculating depository insurance premiums.
- Investment risk:** management risk that might arise when the value of assets owned including securities changes in an unforeseeable manner.
- Management risk:** risk that might arise on business management in an unforeseeable manner, other than 1-3 and 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 amount of non-consolidated solvency-margin) is the total of capital owned by a non-life insurance company, various reserves (price fluctuation reserve, catastrophe reserve, etc.), 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 Paragraph 4, Article 3, Order to specify the division stated in Paragraph 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 Paragraph 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.]

# ACCOUNTING CONCEPTS

## ① Financial statements

### 1. Balance sheets

#### (ASSETS)

Item	(Yen in millions)	
	Fiscal Year	
	2011 (As of March 31, 2012)	2012 (As of March 31, 2013)
<b>Cash and deposits</b>	<b>17,190</b>	<b>25,938</b>
Deposits	17,190	25,938
<b>Call loans</b>	<b>30,105</b>	<b>21,137</b>
<b>Securities</b>	<b>448,120</b>	<b>476,979</b>
Government bonds	248,634	328,071
Corporate bonds	41,411	20,065
Foreign securities	158,073	128,842
<b>Tangible fixed assets</b>	<b>43</b>	<b>117</b>
Buildings	35	33
Other tangible fixed assets	8	84
<b>Intangible fixed assets</b>	<b>175</b>	<b>232</b>
Software	175	231
Other intangible fixed assets	0	1
<b>Other assets</b>	<b>13,787</b>	<b>12,316</b>
Reinsurance balance receivable	9,671	9,962
Accounts receivable	394	223
Uncollected income	1,563	1,155
Deposits	52	50
Suspense payments	26	287
Derivatives	2,051	608
Cash collateral paid for financial instruments	28	28
<b>Deferred tax assets</b>	<b>75</b>	<b>86</b>
<b>Total assets</b>	<b>509,498</b>	<b>536,808</b>

#### Note:

The figures for fiscal 2011 have been corrected by a retrospective restatement.

#### (LIABILITIES)

Item	(Yen in millions)	
	Fiscal Year	
	2011 (As of March 31, 2012)	2012 (As of March 31, 2013)
<b>Underwriting funds</b>	<b>445,595</b>	<b>466,407</b>
Outstanding claims	14,895	4,927
Underwriting reserves	430,700	461,480
<b>Entrusted reserves</b>	<b>49,065</b>	<b>55,127</b>
<b>Other liabilities</b>	<b>8,429</b>	<b>9,325</b>
Reinsurance balance payable	6,406	6,250
Corporate taxes payable	127	175
Deposits payable	4	5
Accrued amounts payable	758	240
Derivatives	1,130	2,653
<b>Reserve for retirement benefits</b>	<b>104</b>	<b>120</b>
<b>Reserve for directors' retirement benefits</b>	<b>15</b>	<b>14</b>
<b>Reserve for bonus payments</b>	<b>19</b>	<b>21</b>
<b>Reserves under the special law</b>	<b>6</b>	<b>5</b>
Reserve for price fluctuation	6	5
<b>Net unrealized gains on available-for-sale securities of earthquake insurance</b>	<b>4,630</b>	<b>4,152</b>
<b>Total liabilities</b>	<b>507,866</b>	<b>535,175</b>

#### Note:

The figures for fiscal 2011 have been corrected by a retrospective restatement.

#### (NET ASSETS)

Item	(Yen in millions)	
	Fiscal Year	
	2011 (As of March 31, 2012)	2012 (As of March 31, 2013)
<b>Common stock</b>	<b>1,000</b>	<b>1,000</b>
<b>Retained earnings</b>	<b>620</b>	<b>625</b>
Legal reserve of retained earnings	1	1
Other legal reserve of retained earnings	619	624
Special reserves	17	17
Special price fluctuation reserves	39	39
Retained earnings brought forward	563	567
<b>Treasury Stock</b>	<b>(5)</b>	<b>(5)</b>
<b>Total shareholders' equity</b>	<b>1,615</b>	<b>1,619</b>
<b>Net unrealized gains on available-for-sale securities</b>	<b>16</b>	<b>13</b>
<b>Total valuation and translation adjustments</b>	<b>16</b>	<b>13</b>
<b>Total net assets</b>	<b>1,631</b>	<b>1,633</b>
<b>Total liabilities and net assets</b>	<b>509,498</b>	<b>536,808</b>

#### Note:

The figures for fiscal 2011 have been corrected by a retrospective restatement.

#### Notes for fiscal 2012

- Appraisal standards and method of securities, and method of indication
  - Of available-for-sale securities, those to which the market price is applicable is appraised according to the market price at term end.
  - Of available-for-sale 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.
  - 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.
- The appraisal of derivatives is done on the basis of market price.
- 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.

Changes in accounting policies, which are almost indistinguishable from changes in accounting estimates:

In accordance with the revision of the Corporate Tax Act of Japan, starting in the fiscal year under review, we have changed our depreciation method for the property, plant and equipment we have acquired since April 1, 2012 to the method under the revised act. The effect of this change on our financial statements is immaterial.

4. 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).
5. The conversion of foreign currency assets and liabilities into Japanese currency is processed according to the accounting standards for foreign currency transactions.

#### 6. Writing standards of reserves

##### (1) Reserve for bad debts

Reserve for bad debts is written as follows against losses from bad debts in accordance with the self-appraisal standard of assets and depreciation and reserve standards.

In connection with claims against debtors who have gone bankrupt legally and formally, including bankruptcy, special liquidation or disposition by suspension of business at a clearing house, or debtors who are effectively bankrupt, the rest of any of the claims deducting an estimated amount of disposable mortgage and a deductible amount by guarantee was appropriated for such reserves.

In connection with the other claims, the rate of bad debts calculated according to past bad debts and other factors is multiplied by the amount of claims to appropriate for reserves.

In addition, all claims are written after the finance department appraises the assets, and the result is audited by the 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) Reserve for retirement benefits

For employees' retirement and severance benefits, reserve 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) Reserve for directors' retirement benefits

For reserve for directors' retirement benefits, the benefits to be paid at the end of the term are recorded according to the relevant in-house rules.

##### (4) Reserve for bonus payments

Reserve for bonus payments is calculated according to the standards for the estimated bonuses payable as of the end of the fiscal year under review.

##### (5) Reserve for price fluctuation

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

#### 7. Changes to presentation method

Cash collateral paid for financial instruments submitted that were included under Other assets (sub-account) of Other assets in the previous fiscal year were independently presented in the fiscal year under review by applying the appended form for the Ordinance for Enforcement of the Insurance Business Act (MOF Ordinance No. 5, 1996), which was revised in accordance with the Cabinet Office Ordinance for Partial Revision of the Ordinance for Enforcement of the Banking Act, etc. (Cabinet Office Ordinance No. 11, March 28, 2013). Cash collateral paid for financial instruments submitted that were included under Other assets (sub-account) in the previous fiscal year amounted to 28 million yen.

#### 8. Error correction

In the balance sheet for the previous fiscal year, the amount of Risk reserves, an item in Underwriting reserves, was recorded as 223 million yen short of the amount that should have been provided, due to excessive income tax payments. The tax refund related to interim payments was also recorded as short the same amount in accounts receivable. As a result, we claimed for a correction and issued a restatement by recording the estimated refund in accounts receivable for the beginning of the term and increasing the balance of underwriting reserves by 223 million yen.

There was no effect on retained earnings due to the correction.

9. Financial instruments and fair values of financial instruments

(1) Situation of financial instruments

We carry 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, our financial assets consist primarily of domestic and foreign, high-rated, medium-term bonds. We regularly obtain and manage 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, 2013.

(Yen in millions)

	Balance sheet amount	Fair value	Difference
(i) Cash and deposits	25,938	25,938	-
(ii) Call loans	21,137	21,137	-
(iii) Securities Available-for-sale securities	476,979	476,979	-
(iv) Derivatives*	(2,044)	(2,044)	-

\*Derivatives recorded in other assets and other liabilities.

Net claims and debts derived from derivatives represent the net amounts, and items whose net balance becomes debts are stated in brackets.

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

(i) Cash and deposits

Fair values of cash and deposits are deemed equal to their carrying values as their fair values and carrying values are similar.

(ii) Call loans

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

(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.

10. Taxes are included when preparing accounts for consumption tax and other items.

11. Risk reserves contained in Underwriting reserves have been deposited based on instructions for the calculation of underwriting reserves by accumulating the amounts that result from subtracting an amount equivalent to corporate taxes from the net

premiums written and profit from operating the assets.

12. The accumulated depreciation of tangible fixed assets is 162 million yen.

13. See below for a breakdown of outstanding claims.

(Yen in millions)

Outstanding claims (before the deduction of outstanding reinsurance claims)	7,672
Outstanding reinsurance claims related to the above claims	2,744
Net outstanding claims	4,927

14. Total deferred tax assets amount to 96 million yen, while total deferred tax liabilities come to 6 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 26 million yen, unpaid special local corporate tax of 19 million yen, reserve for retirement benefits of 37 million yen and reserve for bonus payments of 7 million yen. The deferred tax liabilities result primarily from unrealized gains of 6 million yen on securities.

15. Net assets per share are 821.18 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.

16. No events that could significantly affect assets or income or loss for the next fiscal years and beyond have taken place since the last day of the fiscal year under review.

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

## 2. Statements of income

Item	(Yen in millions)	
	Fiscal Year	
	2011 (from April 1, 2011 to March 31, 2012)	2012 (from April 1, 2012 to March 31, 2013)
	Amount	Amount
<b>Ordinary income</b>	<b>286,812</b>	<b>110,370</b>
<b>Underwriting income</b>	<b>272,503</b>	<b>106,333</b>
Net premiums written	83,671	92,996
Investment income on savings premiums	3,528	3,369
Reversal of outstanding claims	100,023	9,967
Reversal of underwriting reserves	85,280	-
<b>Investment income</b>	<b>14,309</b>	<b>4,031</b>
Interest and dividend income	7,113	4,589
Gains on sales of securities	2,364	-
Gains on derivatives	8,358	-
Foreign exchange gains	-	2,809
Other investment income	1	1
Transfer of profit from Investment income on savings premiums	(3,528)	(3,369)
<b>Other ordinary income</b>	<b>-</b>	<b>5</b>
<b>Ordinary expenses</b>	<b>286,723</b>	<b>110,176</b>
<b>Underwriting expenses</b>	<b>271,872</b>	<b>105,420</b>
Net claims paid	196,625	31,607
Loss adjustment expenses	40,121	4,892
Commissions and brokerage fees	35,126	38,141
Provision of underwriting reserves	-	30,779
<b>Investment expenses</b>	<b>10,821</b>	<b>2,865</b>
Losses on sales of securities	220	0
Losses on derivatives	-	2,836
Foreign exchange losses	10,553	-
Other investment expenses	48	27
<b>Operating, general and administrative expenses</b>	<b>1,074</b>	<b>1,273</b>
<b>Other ordinary expenses</b>	<b>2,954</b>	<b>617</b>
Interest paid	2,954	617
<b>Ordinary profit</b>	<b>89</b>	<b>193</b>
<b>Extraordinary income</b>	<b>-</b>	<b>0</b>
Reversal of price fluctuation reserves	-	0
<b>Extraordinary losses</b>	<b>0</b>	<b>0</b>
Losses on disposal fixed assets	0	0
Provision of price fluctuation reserves	0	-
<b>Income before taxes</b>	<b>88</b>	<b>194</b>
<b>Income taxes – current</b>	<b>97</b>	<b>199</b>
<b>Income taxes – deferred</b>	<b>(3)</b>	<b>(9)</b>
<b>Total income taxes</b>	<b>93</b>	<b>189</b>
<b>Net income (loss)</b>	<b>(5)</b>	<b>4</b>

### Note:

The figures for fiscal 2011 have been corrected by a retrospective restatement.

## Notes for fiscal 2012

- See below for a breakdown of net premiums written.

(Yen in millions)	
Premiums written:	182,895
Reinsurance premiums ceded:	89,899
Net premiums written:	92,996

- See below for a breakdown of net claims paid.

(Yen in millions)	
Claims paid:	55,883
Claims recovered:	24,276
Net claims paid:	31,607

- See below for a breakdown of the provision of outstanding claims (figures in parentheses are the reversal of outstanding claims).

(Yen in millions)	
Provision of outstanding claims (before the deduction of outstanding reinsurance claims)	(18,694)
Provision of outstanding reinsurance claims related to the above claims	(8,726)
Net provision of outstanding claims	(9,967)

- The interest and dividend income are given below by category:

(Yen in millions)	
Deposits:	32
Call loans:	8
Interest on cash collateral and other financial instruments submitted:	0
Securities:	4,549
Total:	4,589

- Paper profit/loss involved in the gains on derivatives is a loss of 2,044 million yen.

- Net income per share is 2.14 yen.

The basis for this calculation is such that net income is 4 million yen, net income accrued from ordinary shares is 4 million yen and the term average No. of ordinary shares amount to 1.988 million.

- The legal effective tax rate at the end of the term is 33.33%, and the corporate tax burden after applying the tax effect is 97.81%. The difference is explained by the following breakdown: the non-deductible amount of the taxable provision of risk reserves is 101.10%, the amount of the write-off carried from publicity expenses related to risk reserves is (36.92%).

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

### 3. Statements of cash flow

Item	(Yen in millions)	
	Fiscal Year	
	2011 (from April 1, 2011 to March 31, 2012)	2012 (from April 1, 2012 to March 31, 2013)
	Amount	Amount
<b>Cash flow from operating activities</b>		
Net income before income taxes	312	194
Depreciation	95	104
Increase (decrease) in outstanding claims	(100,023)	(9,967)
Increase (decrease) in underwriting reserves	(85,280)	30,779
Increase (decrease) in entrusted reserves	(451,185)	6,061
Increase (decrease) in reserve for retirement benefits	2	15
Increase (decrease) in reserve for directors' retirement benefits	(0)	(1)
Increase (decrease) in reserve for bonus payments	1	1
Increase (decrease) in reserve for price fluctuation	0	(0)
Interest and dividend income	(7,113)	(4,589)
Losses (gains) on investment in securities	(2,143)	0
Foreign exchange losses (gains)	(2,262)	(8,518)
Losses (gains) on tangible fixed assets	0	0
Decrease (increase) in other assets (other than investment and financial activities related)	2,119	(380)
Increase (decrease) in other liabilities (other than investment and financial activities related)	534	(673)
Others	(3,955)	2,974
Subtotal	(648,897)	16,001
Interest and dividends received	9,331	5,342
Income taxes paid	(828)	(160)
Net cash provided by operating activities	(640,394)	21,182
<b>Cash flow from investing activities</b>		
Net decrease (increase) in deposits	(8,000)	4,500
Purchase of securities	(237,033)	(559,847)
Proceeds from sales and redemption of securities	594,644	538,680
Others	91	-
Total investment assets activities	349,702	(16,666)
Total operating activities and investment assets activities	(290,691)	4,516
Acquisition of tangible fixed assets	(4)	(87)
Others	(4)	(148)
Net cash provided by investing activities	349,693	(16,902)
<b>Cash flow in financing activities</b>		
Effect of exchange rate changes on cash and cash equivalents	-	-
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(290,700)</b>	<b>4,280</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>322,495</b>	<b>31,795</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>31,795</b>	<b>36,075</b>

**Note:**

The figures for fiscal 2011 have been corrected by a retrospective restatement.

### Notes

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

Item	(Yen in millions)	
	(As of March 31, 2012)	(As of March 31, 2013)
Cash and deposits	17,190	25,938
Call loans	30,105	21,137
Securities	448,120	476,979
Deposits of a depository period of three months or longer	(15,500)	(11,000)
Securities other than cash equivalent	(448,120)	(476,979)
Cash and cash equivalents	31,795	36,075

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	(Yen in millions)	
	Fiscal Year	
	2011 (from April 1, 2011 to March 31, 2012)	2012 (from April 1, 2012 to March 31, 2013)
	Amount	Amount
<b>Shareholder's equity</b>		
<b>Common stock</b>		
Balance at the beginning of the period	1,000	1,000
Changes during the period		
Issuance of new stocks	-	-
Total changes	-	-
Balance at the end of the period	1,000	1,000
<b>Retained earnings</b>		
<b>Legal reserve of retained earnings</b>		
Balance at the beginning of the period	1	1
Changes during the period		
Dividends of surplus	-	-
Total changes	-	-
Balance at the end of the period	1	1
<b>Other legal reserve of retained earnings</b>		
<b>Special reserves</b>		
Balance at the beginning of the period	17	17
Changes during the period		
Total changes	-	-
Balance at the end of the period	17	17
<b>Special price fluctuation reserves</b>		
Balance at the beginning of the period	39	39
Changes during the period		
Total changes	-	-
Balance at the end of the period	39	39
<b>Retained earnings brought forward</b>		
Balance at the beginning of the period	568	563
Changes during the period		
Dividends of surplus	-	-
Net income (loss)	(5)	4
Total changes	(5)	4
Balance at the end of the period	563	567

(Yen in millions)			
Item	Fiscal Year	2011	2012
		(from April 1, 2011 to March 31, 2012)	(from April 1, 2012 to March 31, 2013)
		Amount	Amount
<b>Total retained earnings</b>			
Balance at the beginning of the period		625	620
Changes during the period			
Dividends of surplus		-	-
Net income (loss)		(5)	4
Total changes		(5)	4
Balance at the end of the period		620	625
<b>Treasury stock</b>			
Balance at the beginning of the period		(5)	(5)
Changes during the period			
Disposal of treasury stock		-	-
Total changes		-	-
Balance at the end of the period		(5)	(5)
<b>Total shareholders' equity</b>			
Balance at the beginning of the period		1,620	1,615
Changes during the period			
Issuance of new stocks		-	-
Dividends of surplus		-	-
Net income (loss)		(5)	4
Disposal of treasury stock		-	-
Total changes		(5)	4
Balance at the end of the period		1,615	1,619
<b>Valuation and translation adjustments</b>			
<b>Net unrealized gains on available-for-sale securities</b>			
Balance at the beginning of the period		14	16
Changes during the period			
Net changes other than shareholders' equity		2	(2)
Total changes		2	(2)
Balance at the end of the period		16	13
<b>Total valuation and translation adjustments</b>			
Balance at the beginning of the period		14	16
Changes during the period			
Net changes other than shareholders' equity		2	(2)
Total changes		2	(2)
Balance at the end of the period		16	13
<b>Total net assets</b>			
Balance at the beginning of the period		1,634	1,631
Changes during the period			
Issuance of new stocks		-	-
Dividends of surplus		-	-
Net income (loss)		(5)	4
Disposal of treasury stock		-	-
Net changes other than shareholders' equity		2	(2)
Total changes		(3)	1
Balance at the end of the period		1,631	1,633

**Notes:**

1. Matters related to the types and total number of stocks outstanding and the types and number of treasury stock

Item		(Stock)		
		Balance as of the end of fiscal 2011	Increase in fiscal 2012	Decrease in fiscal 2012
Issued stock	Ordinary stock	2,000,000	-	-
	Total	2,000,000	-	-
Treasury stock	Ordinary stock	11,400	-	-
	Total	11,400	-	-

2. Matters related to stock options or own stock options  
Not applicable

3. Matters related to dividends  
Not applicable

**5. Dividend per stock and total assets per employee**

(Yen in millions)				
Division	Fiscal Year	2010	2011	2012
		Dividend per stock		-
Net income (loss) per stock		1.80 yen	(2.52 yen)	2.14 yen
Dividend propensity		-	-	-
Net assets per stock		821.81 yen	820.30 yen	821.18 yen
Total assets per employee		46,164	19,596	19,881

**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.
4. The figures for fiscal 2011 have been corrected by a retrospective restatement.



## ② Details of assets and liabilities

### 1. Deposits

Division	(Yen in millions)			
	Year	As of the end of fiscal 2010	As of the end of fiscal 2011	As of the end of fiscal 2012
Deposits		10,409	17,190	25,938
Ordinary deposits		2,909	1,690	8,908
Time deposits		7,500	15,500	17,030

### 2. Average balance and trading amount of commodity securities

Not applicable

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

Division	Year	As of the end of fiscal 2010		As of the end of fiscal 2011		As of the end of fiscal 2012	
		Amount	Percentage distribution (%)	Amount	Percentage distribution (%)	Amount	Percentage distribution (%)
Government bonds		414,095	51.4	248,634	55.5	328,071	68.8
Municipal bonds		-	-	-	-	-	-
Corporate bonds		75,503	9.4	41,411	9.2	20,065	4.2
Stocks		-	-	-	-	-	-
Foreign securities		315,624	39.2	158,073	35.3	128,842	27.0
Other securities		-	-	-	-	-	-
Loan receivable in securities		-	-	-	-	-	-
Total		805,223	100.0	448,120	100.0	476,979	100.0

### 4. Yield on securities held

Division	Fiscal Year		
	2010	2011	2012
Investment assets yield (income yield)			
Public & corporate bonds	0.95	0.83	0.53
Stocks	-	-	-
Foreign securities	2.41	2.19	1.91
Other securities	-	-	-
Total	1.55	1.43	0.96
Assets management yield (realized yield)			
Public & corporate bonds	1.04	1.19	0.53
Stocks	-	-	-
Foreign securities	2.36	2.74	1.91
Other securities	(11.01)	-	-
Total	1.55	1.87	0.96
Market-price based overall yield (for reference)			
Public & corporate bonds	0.60	0.66	0.51
Stocks	-	-	-
Foreign securities	1.02	1.61	1.59
Other securities	(2.77)	-	-
Total	0.77	1.08	0.85

**Note:**

Public & corporate bonds include government bonds, municipal bonds, and corporate bonds.

## 5. Balance Current Maturity of securities by category

### As of the end of fiscal 2011

Division	(Yen in millions)						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	150,938	32,443	23,374	16,351	24,495	1,031	248,634
Municipal bonds	-	-	-	-	-	-	-
Corporate bonds	21,647	18,153	104	1,506	-	-	41,411
Stocks	-	-	-	-	-	-	-
Foreign securities	45,197	64,219	36,307	12,350	-	-	158,073
Other securities	-	-	-	-	-	-	-
Loan receivable in securities	-	-	-	-	-	-	-
Total	217,783	114,815	59,786	30,208	24,495	1,031	448,120

### As of the end of fiscal 2012

Division	(Yen in millions)						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	210,396	26,392	45,992	27,203	18,085	-	328,071
Municipal bonds	-	-	-	-	-	-	-
Corporate bonds	17,655	2,410	-	-	-	-	20,065
Stocks	-	-	-	-	-	-	-
Foreign securities	39,581	48,224	28,613	12,422	-	-	128,842
Other securities	-	-	-	-	-	-	-
Loan receivable in securities	-	-	-	-	-	-	-
Total	267,633	77,027	74,605	39,626	18,085	-	476,979

### 6. Amount of stocks held by type of business

There are no stocks.

### 7. Loans

There are no notes with the following items; amount of stocks held by type of business, balance current maturity of loan by remaining life, balance of loans by type of collateral secured, balance and percentage distribution of loan by designated use, balance of loan by industry and its ratio to the total, and balance of amortization of loans.

### 8. Risk management credits

Not applicable

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

Not applicable

## 10. Self-appraisal of assets

We categorize assets in accordance with the level of risk associated with collection and the level of risk of a loss in the value by carrying out self-appraisal and individually examining holding assets. There were no category assets (II through IV categories) as at the end of March 2013.

## 11. Tangible fixed assets by category

Division	Year	(Yen in millions)		
		As of the end of fiscal 2010	As of the end of fiscal 2011	As of the end of fiscal 2012
Land		-	-	-
for underwriting		-	-	-
for investment		-	-	-
Buildings		37	35	33
for underwriting		37	35	33
for investment		-	-	-
Construction in progress		-	-	-
for underwriting		-	-	-
for investment		-	-	-
Total of property		37	35	33
for underwriting		37	35	33
for investment		-	-	-
Other tangible fixed assets		14	8	84
Total		52	43	117

## 12. Unearned claims paid

Not applicable

## 13. Special account

Not applicable

## 14. Underwriting funds

Division	Year	(Yen in millions)		
		As of the end of fiscal 2010	As of the end of fiscal 2011	As of the end of fiscal 2012
Outstanding claims		114,918	14,895	4,927
Underwriting reserves		515,981	430,700	461,480
Risk reserves		424,401	331,499	352,830
Unearned premium reserves		90,054	97,686	107,140
Repayment reserves		1,524	1,514	1,509
Total		630,899	445,595	466,407

### Note:

The figures for fiscal 2011 have been corrected by a retrospective restatement.

## 15. Level of underwriting reserves

There is no target contact.

## 16. Detailed listing of liability reserves

### As of the end of Fiscal 2011

Division	(Yen in millions)			
	Balance as of the end of fiscal 2010	Increase in fiscal 2011	Decrease in fiscal 2011	Balance as of the end of fiscal 2011
Reserve for ordinary bad debts	-	-	-	-
Reserve for individual bad debts	-	-	-	-
Reserve for specific foreign securities	-	-	-	-
Reserve for retirement benefits	102	18	15	104
Reserve for directors' retirement benefits	15	4	4	15
Reserve for bonus payments	17	19	17	19
Reserve for price fluctuation	5	0	-	6
Total	141	41	37	146

### As of the end of Fiscal 2012

Division	(Yen in millions)			
	Balance as of the end of fiscal 2011	Increase in fiscal 2012	Decrease in fiscal 2012	Balance as of the end of fiscal 2012
Reserve for ordinary bad debts	-	-	-	-
Reserve for individual bad debts	-	-	-	-
Reserve for specific foreign securities	-	-	-	-
Reserve for retirement benefits	104	20	4	120
Reserve for directors' retirement benefits	15	4	5	14
Reserve for bonus payments	19	21	19	21
Reserve for price fluctuation	6	-	0	5
Total	146	45	30	161

## 17. Detailed listing of shareholders' equity

Please refer to the statement of changes in shareholders' equity on page 45.

### ③ Income and loss details

#### 1. Gains on sales of securities by category

(Yen in millions)				
Division	Fiscal Year	2010	2011	2012
Government bonds		1,092	1,116	-
Foreign securities		408	1,247	-
Total		1,501	2,364	-

#### 2. Losses on sales of securities by category

(Yen in millions)				
Division	Fiscal Year	2010	2011	2012
Government bonds		920	145	-
Foreign securities		638	75	0
Total		1,558	220	0

#### 3. Losses on valuation of securities

Not applicable

#### 4. Gains on disposal of fixed assets

Not applicable

#### 5. Losses on disposal of fixed assets

(Yen in millions)				
Division	Fiscal Year	2010	2011	2012
Land		-	-	-
Buildings		-	-	-
Other tangible fixed assets		-	0	0
Total		-	0	0

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

(Yen in millions)				
Division	Fiscal Year	2010	2011	2012
Personnel expenses		350	11,636	1,031
Non personnel expenses		702	29,330	4,881
Taxes		196	228	252
Commissions and brokerage fees		31,236	35,126	38,141
Total		32,485	76,322	44,307

**Note:**

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

### 7. Depreciation expenses by category

#### As of the end of Fiscal 2011

(Yen in millions)					
Type of asset	Acquisition cost	Depreciation in fiscal 2011	Aggregated depreciations	Balance as the end of fiscal 2011	Rate of aggregated depreciations %
<b>Tangible fixed assets</b>					
Buildings	101	2	65	35	65.0
for underwriting	101	2	65	35	65.0
for investment	-	-	-	-	-
Others	97	10	89	8	91.6
Total	199	13	155	43	78.1
<b>Intangible fixed assets</b>					
Software	411	82	236	175	57.3
Other intangible fixed assets	0	0	0	0	95.6
Total	412	82	236	175	57.4
Grand total	611	95	391	219	64.1

#### As of the end of Fiscal 2012

(Yen in millions)					
Type of asset	Acquisition cost	Depreciation in fiscal 2012	Aggregated depreciations	Balance as the end of fiscal 2012	Rate of aggregated depreciations %
<b>Tangible fixed assets</b>					
Buildings	101	2	68	33	66.9
for underwriting	101	2	68	33	66.9
for investment	-	-	-	-	-
Others	179	10	94	84	52.9
Total	280	12	162	117	58.0
<b>Intangible fixed assets</b>					
Software	558	91	327	231	58.7
Other intangible fixed assets	1	0	0	1	12.2
Total	560	91	328	232	58.5
Grand total	841	104	490	350	58.3

#### 4 Information about fair values, etc.

##### 1. Matters related to financial instruments

For matters related to the status of financial instruments and matters related to the fair values of financial instruments, please refer to Note 9 on the balance sheet (page 43).

##### 2. Securities

###### (i) Securities held for trading purposes

Not applicable

###### (ii) Securities to be held to maturity

Not applicable

###### (iii) Available-for-sale securities

###### At the end of fiscal 2011

(Yen in millions)

Division	Type	Acquisition cost	Book value	Difference
Securities with acquisition cost higher than that posted on the balance sheet	Public & corporate bonds	194,534	196,554	2,020
	Stocks	-	-	-
	Foreign securities	93,178	94,842	1,663
	Others	-	-	-
	Subtotal	287,712	291,396	3,683
Securities with acquisition cost not higher than that posted on the balance sheet	Public & corporate bonds	93,582	93,491	(90)
	Stocks	-	-	-
	Foreign securities	73,135	63,231	(9,903)
	Others	-	-	-
	Subtotal	166,717	156,723	(9,994)
Total		454,430	448,120	(6,310)

###### At the end of fiscal 2012

(Yen in millions)

Division	Type	Acquisition cost	Book value	Difference
Securities with acquisition cost higher than that posted on the balance sheet	Public & corporate bonds	199,878	201,819	1,941
	Stocks	-	-	-
	Foreign securities	98,536	101,028	2,492
	Others	-	-	-
	Subtotal	298,414	302,848	4,433
Securities with acquisition cost not higher than that posted on the balance sheet	Public & corporate bonds	146,373	146,317	(56)
	Stocks	-	-	-
	Foreign securities	30,463	27,813	(2,649)
	Others	-	-	-
	Subtotal	176,837	174,131	(2,705)
Total		475,251	476,979	1,727

###### (iv) Available-for-sale securities sold at the term

(Yen in millions)

Type	Fiscal 2011			Fiscal 2012		
	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	273,998	2,364	220	100	-	0

##### 3. Money trust

Not applicable

##### 4. Derivative transactions

(i) Derivative transactions to which hedge accounting is not applied

###### (a) Currency related

###### At the end of fiscal 2011

(Yen in millions)

Type	Contract amount		Market price	Appraisal profit and loss
		1 year or longer ones		
Over-the-counter transactions				
Forward foreign exchange contracts				
Short positions				
US dollar	394	-	(15)	(15)
Euro	53,410	8,600	979	979
Total			963	963

###### At the end of fiscal 2012

(Yen in millions)

Type	Contract amount		Market price	Appraisal profit and loss
		1 year or longer ones		
Over-the-counter transactions				
Forward foreign exchange contracts				
Short positions				
US dollar	1,644	-	(328)	(328)
Euro	30,272	921	(1,687)	(1,687)
Total			(2,016)	(2,016)

###### Notes:

- Currency related derivative transactions other than the above are omitted as there is no applicable item.
- Calculating a market price: Foreign exchange rates depend on futures quotations.

###### (b) Credit related

###### At the end of fiscal 2011

(Yen in millions)

Type	Contract amount		Market price	Appraisal profit and loss
		1 year or longer ones		
Over-the-counter transactions				
Long position in credit derivative transactions	3,952	3,952	(42)	(42)
Total			(42)	(42)

###### At the end of fiscal 2012

(Yen in millions)

Type	Contract amount		Market price	Appraisal profit and loss
		1 year or longer ones		
Over-the-counter transactions				
Long position in credit derivative transactions	4,346	-	(28)	(28)
Total			(28)	(28)

###### Note:

Calculating a market price: Based on values presented by relationship financial institution.

(ii) Derivative transactions to which hedge accounting is applied

Not applicable

**CORPORATE DATA** (as of March 31, 2013)

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Established:	May 30, 1966
Capital:	1 billion yen
Total assets:	536.8 billion yen
No. of employees:	27
Address:	Hulic Kobuna-cho Building, 8-1, Nihonbashi-kobuna-cho, Chuo-ku, Tokyo Japan 103-0024
Phone:	03-3664-6078
URL:	<a href="http://www.nihonjishin.co.jp/">http://www.nihonjishin.co.jp/</a>

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**Japan Earthquake Reinsurance**