

# 2014

## ANNUAL REPORT

Introduction to Earthquake Reinsurance in Japan



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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 its founding, we have not only sought to promptly make earthquake reinsurance payouts for earthquakes, eruptions, and tsunamis that have occurred in Japan, but also to constantly pay close attention to managing and operating assets for future earthquake reinsurance payouts, focusing primarily on liquidity and safety.

Because of the large-scale monetary easing policy introduced by the government and the Bank of Japan, the yen weakened. Thanks to the weaker yen and a recovery in overseas economies, especially the U.S., exports were strengthening. Capital expenditures are rising moderately, reflecting improving corporate earnings. Although the Japanese economy is weak due to the reaction to the spike in demand before the consumption tax hike, the economy is expected to remain on a moderate recovery trend.

Three years have passed since the Great East Japan Earthquake. Given increasing interest in earthquake insurance, the number of in-force contracts has been increasing nationwide. The household earthquake insurance coverage ratio, which shows the ratio of in-force contracts to the number of households, stood at 28.5% (on a provisional basis) at the end of fiscal 2013. In Miyagi Prefecture, which was affected by the earthquake, the household earthquake insurance coverage ratio has exceeded 50%.

Given the increase in the number of in-force earthquake insurance contracts, the limit of the total amount of insurance claims to be paid for an earthquake was raised from 6.2 trillion yen to 7 trillion yen in April this year, for the first time in two years.

In this environment, under our third medium-term business plan, which has been executed from fiscal 2012, we have steadily implemented initiatives. In particular, we took measures for massive and consecutive earthquakes, as well as strengthening our business continuity plan for a scenario involving an inland earthquake in the Tokyo metropolitan area.

June this year was the 50th anniversary of the Niigata Earthquake, which led to the creation of earthquake insurance. In response to the disaster, the earthquake insurance system and JER were established to contribute to the stable life of victims of disasters. For half a century since then, we have played a role at the time of a number of earthquakes, eruptions, and tsunamis.

January next year will mark the 20th anniversary of the Great Hanshin-Awaji Earthquake. In addition to this big earthquake, fiscal 2014 will see the anniversaries of a number of other earthquakes.

We will continue to take a proactive role in enhancing and improving the system of earthquake insurance covering dwelling risks through the sound operation of the system, aiming to become a company that is completely trusted by our stakeholders. We hope that we can rely on your continued support.

July 2014

Masamichi Irie  
President  
Japan Earthquake Reinsurance Co., Ltd.

# JAPAN EARTHQUAKE REINSURANCE CO., LTD.

## PROFILE

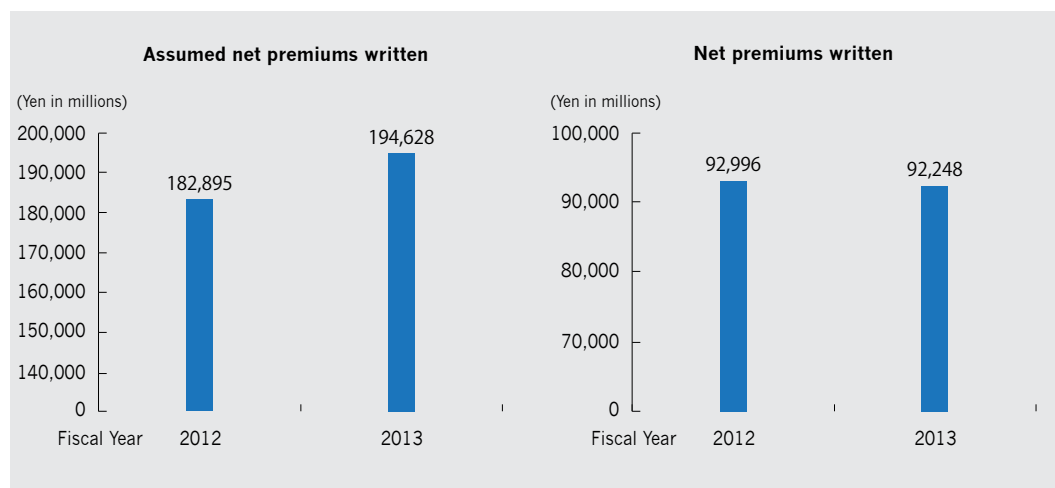
In accordance with the introduction of the Law concerning Earthquake Insurance (Law No. 73, May 18, 1966) and following the launch of sales of earthquake insurance on dwelling risks to be written in conjunction with dwelling and shop-owners comprehensive insurance policies, JER was established with share 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.

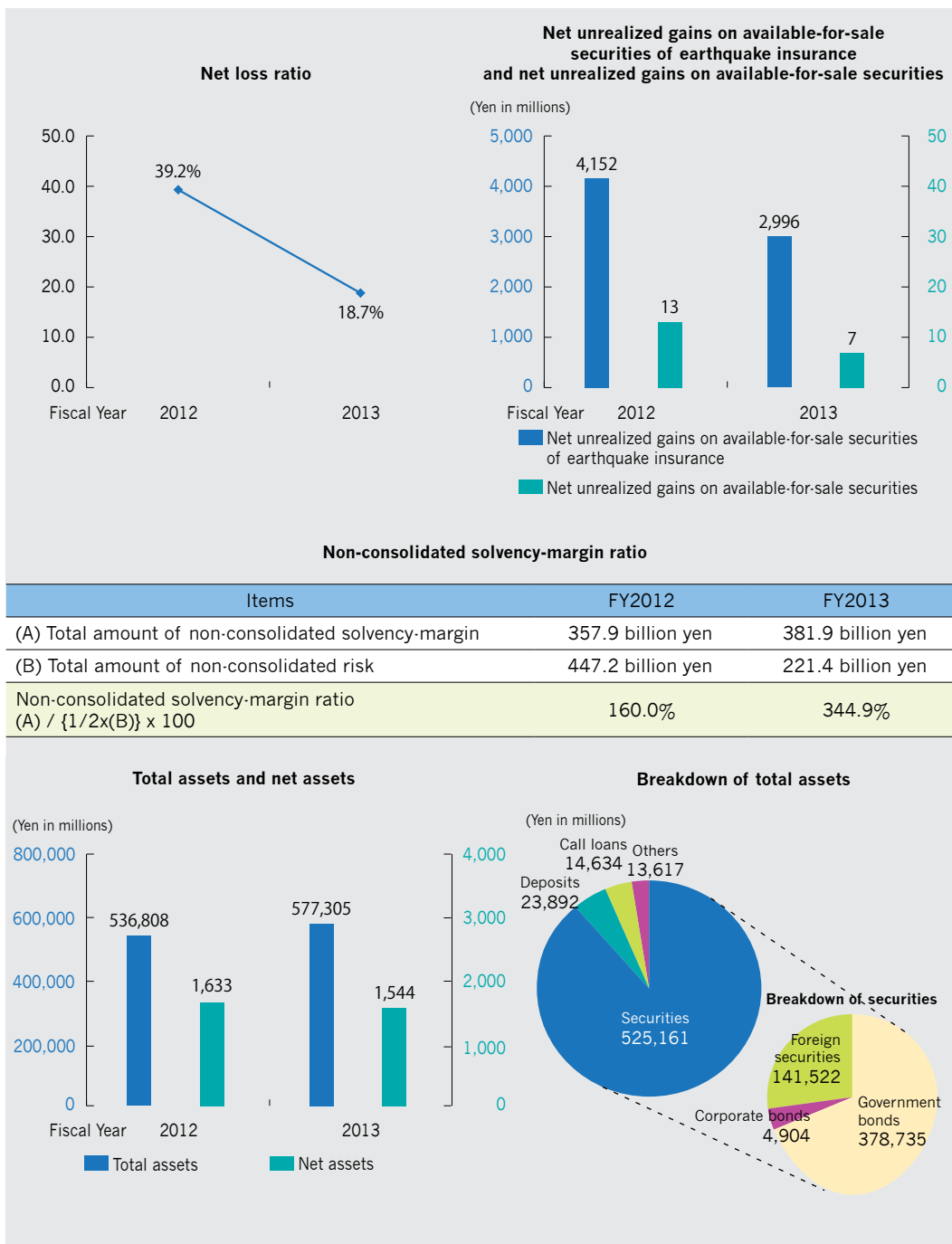
Earthquake insurance on dwelling risks depends on this reinsurance system (which is a safety net, as it were), in which the government, non-life insurance companies and JER participate to ensure that insurance claims can be paid to policyholders without fail.

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.

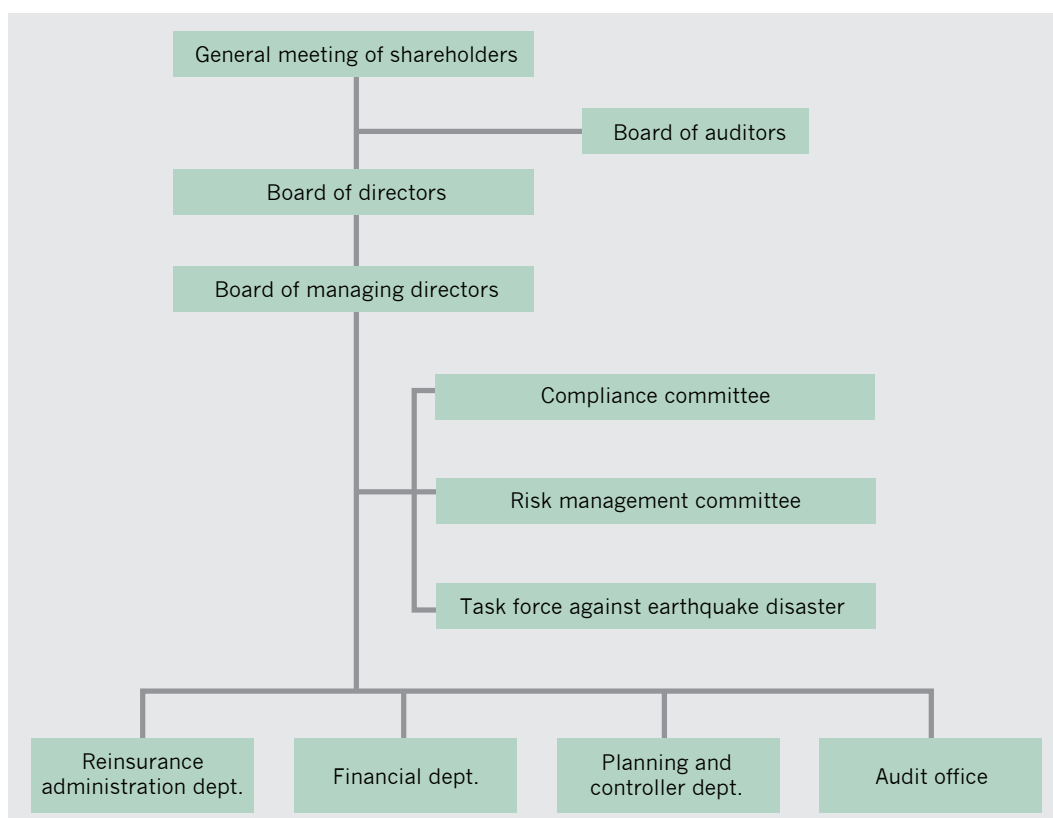
## FINANCIAL HIGHLIGHTS





## ORGANIZATION

(As of April 1, 2014)



## SHAREHOLDERS

(As of March 31, 2014)

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, 2014)

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

We have established the Task Force for Earthquake Disasters as a standing in-house organization. The task force 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 may strike the Tokyo metropolitan area. It also develops and examines a disaster response manual among other activities.

Following the completion of improvements to the system infrastructure, so that it will withstand an inland earthquake in the Tokyo metropolitan area, in fiscal 2013 the task force carried out drills for effectively using the system infrastructure in response to assumed emergency situations.

Assuming that our head office is affected by a disaster, we have established a temporary office in Saitama City that will be used as a base for performing important operations.

#### **DISASTER RESPONSE DRILL FOR CONTINUING BUSINESS AT HOME**

Assuming a disaster outside working hours, for example on a holiday, we conducted drills for performing urgent tasks from home, using remote access. The purpose of the drills is confirming procedures for safety confirmation and the creation of an earthquake task force and ensuring prompt arrangements for reinsurance payment based on approximate projections, an important task when a big earthquake occurs.

We will make preparations for ensuring that we can perform our tasks if we are affected by a disaster by addressing challenges that we have discovered through the drills and conducting additional drills.

#### **SETTING UP A TEMPORARY OFFICE IN SAITAMA CITY**

In the building of the Kita-Kanto branch of the General Insurance Association of Japan, we have secured a space that we can access should our head office be unusable due to a disaster. In this way we can continue to perform urgent, important tasks.

The office is fully equipped with terminals necessary for performing our duties and other equipment and enables us to continue operations in the same system environment as that at head office, using remote access.

#### **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 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.



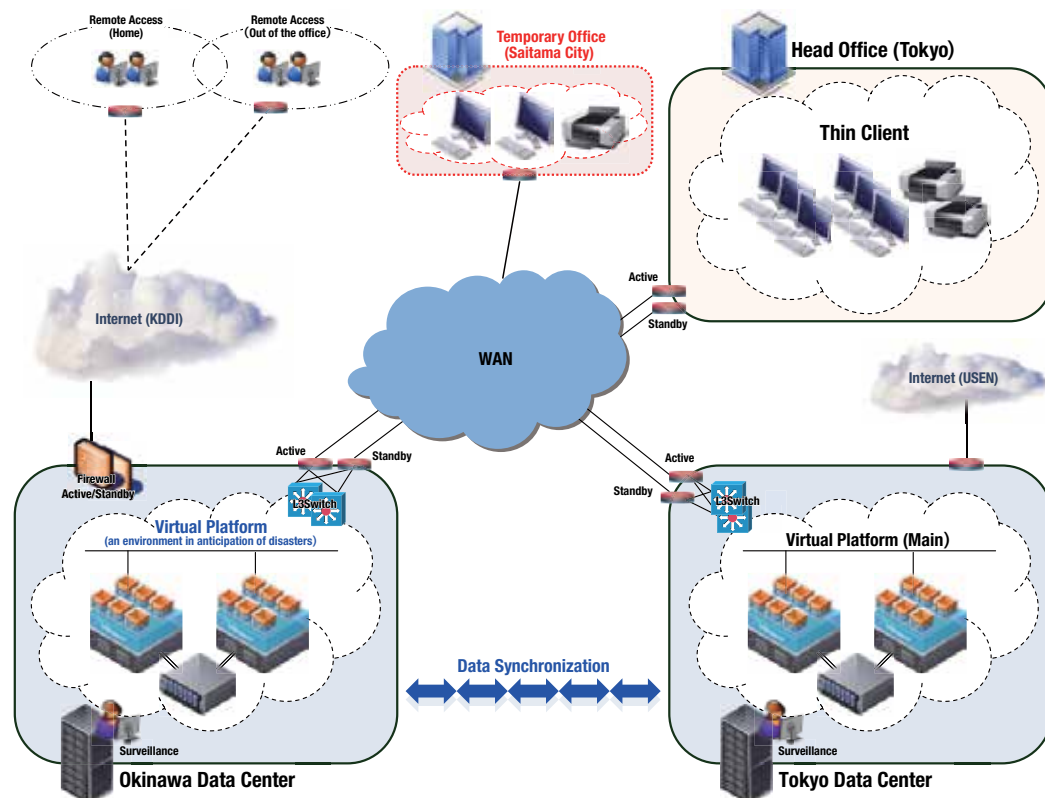


## SYSTEM INFRASTRUCTURE IN ANTICIPATION OF AN INLAND EARTHQUAKE IN THE TOKYO METROPOLITAN AREA

To ensure business continuity in case of the feared inland earthquake in the Tokyo metropolitan area, in March 2013 JER renovated all of its important systems and moved systems onto a virtual platform at a cutting-edge data center in Tokyo, which has Japan's highest-level earthquake-resistance capacity and energy utilization efficiency. To make assurance doubly sure, JER has set up a backup system at its data center in Okinawa, which is unlikely to be affected by an earthquake at the same time as Tokyo, and has built a system for data synchronization between Tokyo and Okinawa using a communications line.

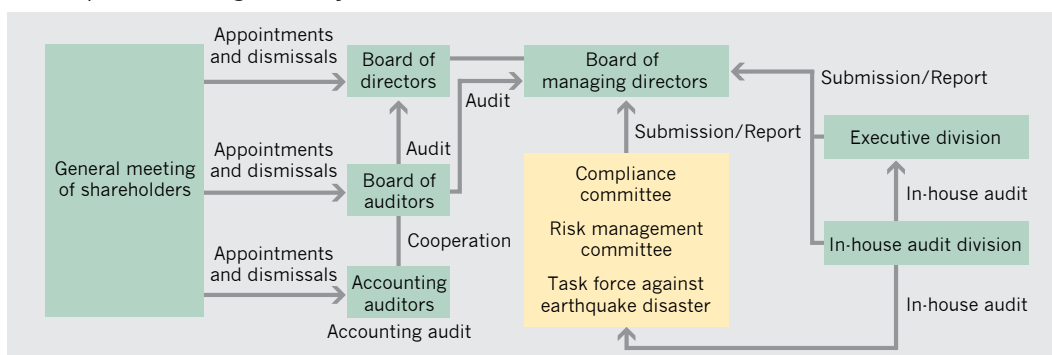
Moreover, JER has made terminals thin clients and has concentrated data on the virtual platform to reduce the risk of loss of data and information leakage. Meanwhile, JER has introduced a remote access system where users outside the company can access the company's system via the Internet. The remote access system has enabled employees to use the same system as usual if they have access to the Internet, even if the transportation network is disrupted by an inland earthquake in the Tokyo metropolitan area, making it impossible for employees to come to the office.

We will continue to strengthen our business continuity plan (BCP) in anticipation of an inland earthquake in the Tokyo metropolitan area.



## 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

We 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 accounting audits by PricewaterhouseCoopers Arata 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 2014, based on the “In-House Audit Policy and Plan” adopted by resolution of the Board of Directors, we will prioritize the evaluation of our voluntary inspections using the Financial Services Agency’s insurance inspection manual checklist and a follow-up of system audits through third parties carried out in fiscal 2013. 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

## REVISION OF STANDARD FULL RATES FOR EARTHQUAKE INSURANCE ON JULY 1, 2014

The earthquake insurance standard full rates have been revised for contracts whose inception date is July 1, 2014 or later.

The Ministry of Finance's project team on the earthquake insurance system has pointed out the need to review the location classification and the discount rates in accordance with aseismic performance, and the government's Headquarters for Earthquake Research Promotion has reviewed its epicenter model for its Probabilistic Seismic Hazard Map. As a result, the risk of damage associated with earthquakes has increased, and the standard full rates have been revised.

The following is an outline of the revision.

### **(1) Review of premiums**

The location classification by prefecture in accordance with degrees of earthquake risk has been reviewed, and rates have been reviewed based on a new epicenter model. Rates of increase and decrease in premiums vary depending on prefectures and buildings' structures, and the national average has risen around 15.5%. To put a limit on changes in premium rates, if premium rates by structure and location classification were calculated to rise beyond 30%, the rise was reduced to 30%.

### **(2) Expansion of discount rates**

Discount rates for seismically isolated buildings and buildings whose seismic grade is 3 or 2 have been expanded in consideration of damage caused by earthquakes. The scope of confirmation documents required for the application for discounts has also been expanded, which has made the application easier.

For further information, please refer to Premium Rate on page 16.



## PARTICIPATION IN THE WORLD FORUM OF CATASTROPHE PROGRAMS

We have participated in the World Forum of Catastrophe Programs and have transmitted information to the world.

Meetings of the World Forum of Catastrophe Programs have been held every year since 2006, and representatives of public institutions operating insurance (reinsurance) schemes for natural disasters have participated in the meetings. The purpose of the meetings is sharing knowledge and experience related to the operation of schemes and providing information to countries and territories that intend to introduce similar schemes.

We have participated in the meetings since 2008 and have described the characteristics of Japan's earthquake risk and Japan's earthquake insurance system.

In a meeting of the World Forum of Catastrophe Programs held in Norway in September 2013, representatives from 15 countries and territories participated. Our representative reported on the following topics associated with the Great East Japan Earthquake.

- (1) The reaction of the insurance industry and the government and lessons learned**
- (2) The handling of challenges that have emerged**
- (3) Remaining challenges**

Japan's earthquake insurance system and response to the Great East Japan Earthquake have earned high marks among other countries. We have made contributions to other countries and territories by communicating actions in Japan to them.

## PUBLISHING LOOKING BACK ON THE GREAT EAST JAPAN EARTHQUAKE: OUR ACTIONS AND THE LESSONS WE LEARNED FROM THEM

We have published a booklet written in English that describes the roles we played after the Great East Japan Earthquake, the debate over the review of the earthquake insurance system after the earthquake, and action taken in anticipation of an inland earthquake in the Tokyo metropolitan area.

We have been using the booklet as a tool for transmitting information to the world, especially in meetings of the World Forum of Catastrophe Programs.

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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.

# 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.

## 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 7,000 billion yen as revised in April 1, 2014 per earthquake, etc.. (On the same day, the liability limits of JER, non-life insurance companies and the government 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 General Insurance Rating Organization of Japan\*\* on the basis of the Law concerning General 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 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.

\*\* *General Insurance Rating Organization of Japan*

An organization established in accordance with the Law concerning General 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 National Seismic Hazard Maps are subject to an annual review.



The earthquake insurance standard full rates have been revised for contracts whose inception date is July 1, 2014 or later.

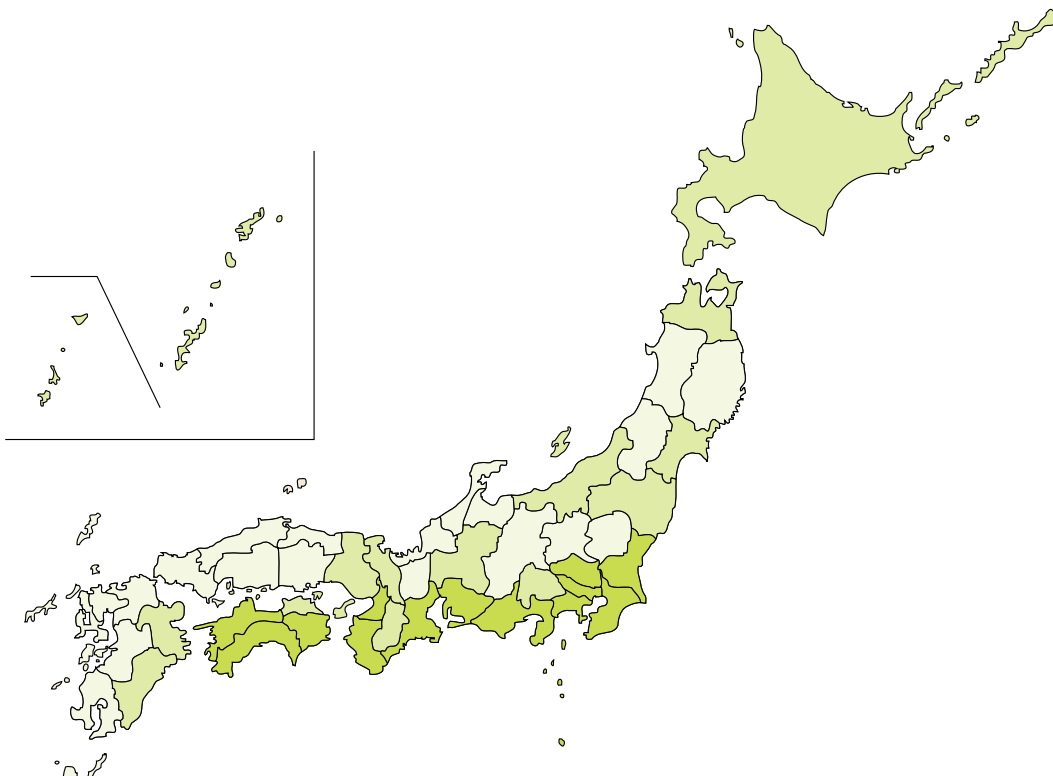
For details, please refer to Topics on page 11.

### BASIC RATE (APPLICABLE TO BUILDINGS AND PERSONAL PROPERTY) EXAMPLES OF PREMIUMS

Per one year insurance period and 10 million yen of amount insured (Unit: yen)

Location classification	Prefecture	Non wooden	Wooden	Wooden (with transitional measures)
1	Iwate-ken, Akita-ken, Yamagata-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	6,500	10,600	8,400
	Nagano-ken, Shiga-ken, Okayama-ken, Hiroshima-ken			
2	Fukushima-ken	6,500	13,000	8,400
	Hokkai-do, Aomori-ken, Miyagi-ken, Niigata-ken, Gifu-ken, Hyogo-ken, Nara-ken, Kyoto-fu, Oita-ken, Miyazaki-ken, Okinawa-ken	8,400	16,500	10,900
	Kagawa-ken			
	Yamanashi-ken			
3	Ibaraki-ken, Ehime-ken	11,800	24,400	15,300
	Saitama-ken, Osaka-fu	13,600		17,600
	Tokushima-ken, Kochi-ken	11,800	27,900	15,300
	Chiba-ken, Aichi-ken, Mie-ken, Wakayama-ken	20,200	32,600	26,200
	Tokyo-to, Kanagawa-ken, Shizuoka-ken			

(Note) To put a limit on changes in premium rates, if premium rates by structure and location classification were calculated to rise beyond 30%, the rise was reduced to 30%.



## 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	50%
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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%	30%	50%

### (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%
---------------	-----

\* *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

\*\*\* *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.



## 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

### 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 10 million yen

- 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: 10 million yen x 50% = 5 million yen
- Confirming the premium rate applicable: Hyogo-ken, wooden  
 → 1.65 (premium per 1,000 yen insurance)
- Confirming the discount rate applicable: Building constructed in and after June 1981  
 → 10%

$$\begin{array}{l} \text{Earthquake insurance premium} \\ \text{on residential building} \end{array} = \begin{array}{l} \text{Earthquake} \\ \text{amount insured} \\ (1,000 \text{ yen}) \end{array} \times \begin{array}{l} \text{Earthquake insurance} \\ \text{premium rate} \\ 1.65 \end{array} \times \underbrace{(100\% - 10\%)}_{1.49} = 14,900 \text{ (yen)}$$

$$\begin{array}{l} \text{Earthquake insurance premium} \\ \text{on personal property} \end{array} = \begin{array}{l} \text{Earthquake} \\ \text{amount insured} \\ (1,000 \text{ yen}) \end{array} \times \begin{array}{l} \text{Earthquake insurance} \\ \text{premium rate} \\ 1.65 \end{array} \times \underbrace{(100\% - 10\%)}_{1.49} = 7,450 \text{ (yen)}$$

\* 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.

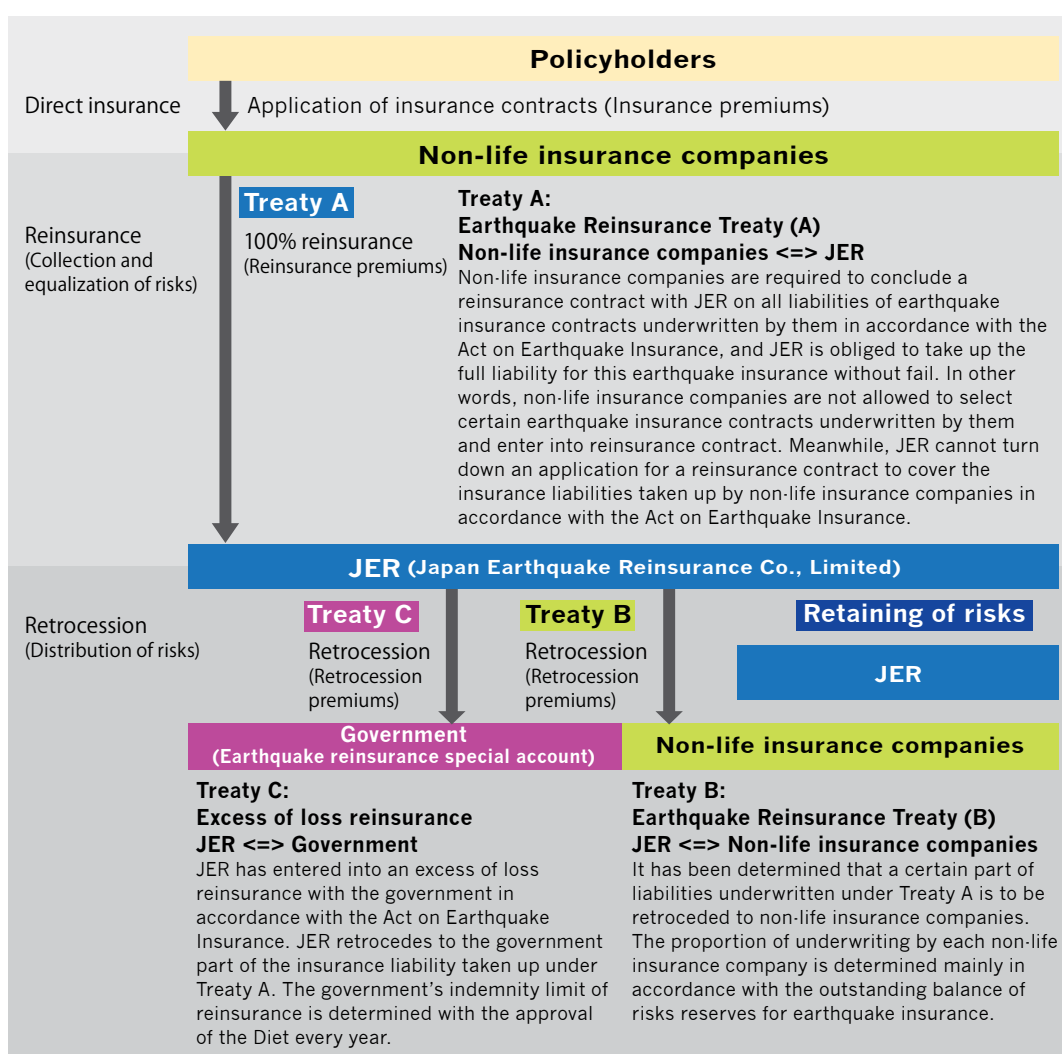
When a major earthquake occurs, a non-life insurance company must make a large amount of money ready so that it can pay a large number of insurance claims. To avoid problems in paying insurance claims, the government has set forth a ministerial ordinance that covers the payment of reinsurance claims 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.

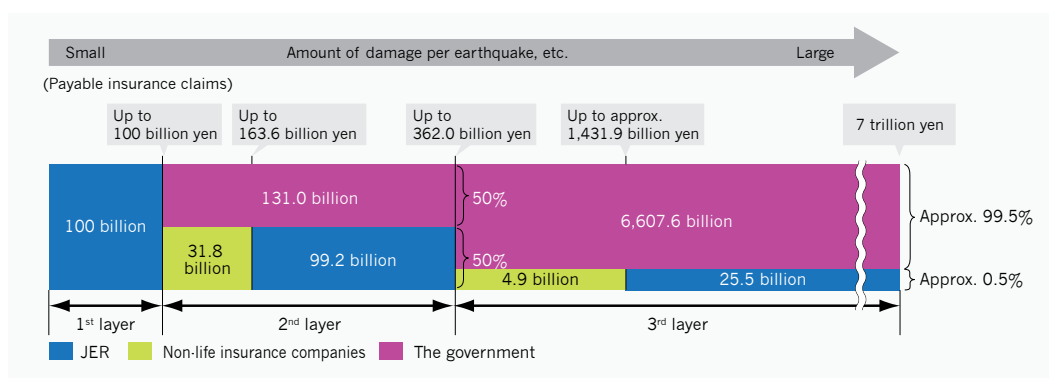
JER first reinsures earthquake insurance contracts that were underwritten by non-life insurance companies, and then divides the risks evenly. After excluding the risks held by JER, JER implements retrocession against the government and non-life insurance companies in accordance with the burden of risks 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 7.0 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 APRIL 1, 2014)



### LIABILITY LIMIT

JER	224.7 billion yen
Non-life insurance companies	36.7 billion yen
The government	6,738.6 billion yen

JER pays insurance claims up to 100 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 100 billion yen, up to 362 billion yen (2nd layer). The government pays a majority of insurance claims (approximately 99.5%) for the portion exceeding 362 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 A person of burden	Portion over 100 billion yen, and up to 362 billion yen			Total
	Portion up to 100 billion yen	Portion over 100 billion yen, and up to 362 billion yen	Portion over 362 billion yen, and up to 2,000 billion yen	
Non-life insurance companies	100.0	131.0	About 8.2	About 239.2
The government	—	131.0	About 1,629.8	About 1,760.8
Total	100.0	262.0	1,638.0	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 2013

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	378.0 billion yen
Non-life insurance companies	72.5 billion yen
The government	1,072.7 billion yen
Total	1,523.3 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 2013 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

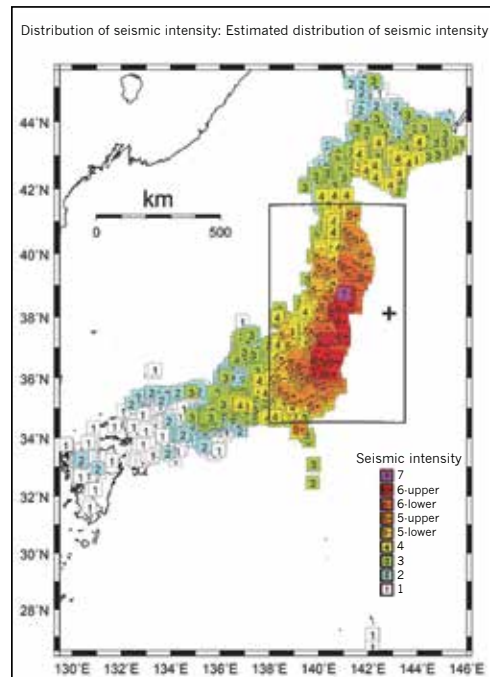
(v) JMA Seismic Intensity:

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, August 4, 2014) is as follows.

Maximum seismic intensity	No. of aftershocks
6-upper	2
6-lower	2
5-upper	15
5-lower	47
4	261



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



### Summary of damage (as of March 7, 2014)

(i) Casualties:	Death:	18,958 people
	Missing:	2,655 people
	Injured:	6,219 people
(ii) Residential damage:	Total collapse:	127,291 houses
	Half collapse:	272,810 houses
	Partially collapse:	766,097 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. 149)” 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 March 31, 2014, the overall non-life insurance industry paid earthquake insurance of approximately 1,257.9 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 1,257.9 billion yen for approximately 780,000 policies<sup>(Note)</sup> by the end of March 2014.

(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).

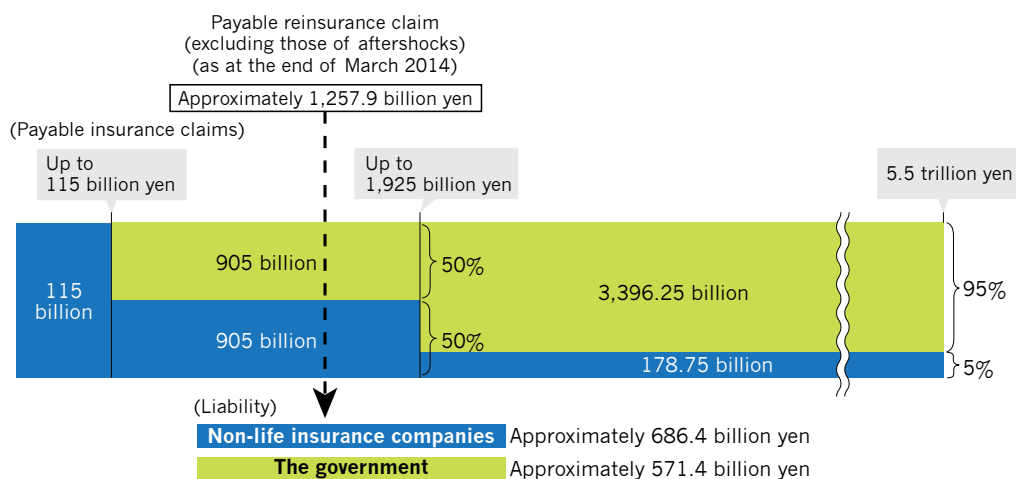
To facilitate prompt insurance payouts by non-life insurance companies to policyholders, we made reinsurance payouts based on approximate projections for the first time since the establishment of Japan's earthquake insurance system.

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

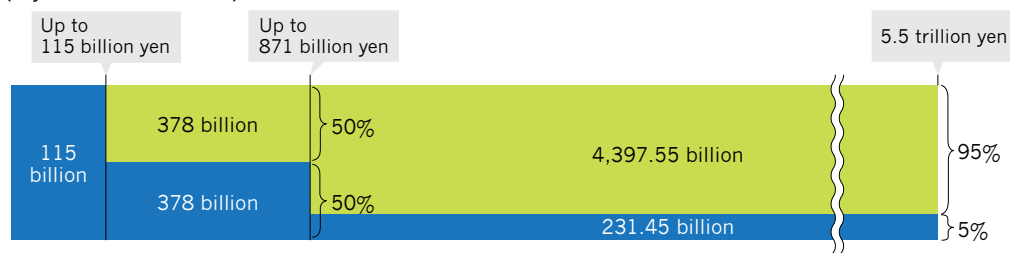


## MODIFICATION OF THE REINSURANCE SCHEME AFTER THE GREAT EAST JAPAN EARTHQUAKE

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, 2014)

### BY PREFECTURES

Region	No. of policies	Reinsurance claims (million yen)
Hokkaido	1,454	1,666
Tohoku	Aomori	5,210
	Iwate	57,649
	Miyagi	556,600
	Akita	1,248
	Yamagata	3,107
	Fukushima	158,894
	<b>Subtotal</b>	<b>360,756</b>



Region		No. of policies	Reinsurance claims (million yen)
Kanto, Koshinetsu, Shizuoka	Ibaraki	106,176	155,924
	Tochigi	38,309	44,338
	Gunma	8,812	7,697
	Saitama	37,844	29,225
	Chiba	96,570	115,291
	Tokyo	101,240	94,789
	Kanagawa	24,006	20,319
	Niigata	1,537	1,374
	Yamanashi	4,467	2,877
	Nagano	406	561
	Shizuoka	1,044	772
Subtotal		420,411	473,173
Other prefectures		410	359
Total		783,031	1,257,911

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	22,865	206,486	13,151	43,338	36,016	249,825
Half loss	64,708	302,460	75,609	120,885	140,317	423,345
Partial loss	192,900	101,864	46,318	7,676	239,218	109,540
Total	280,473	610,811	135,078	171,900	415,551	782,712

### 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	5,002	46,822	684	2,220	5,686	49,042
Half loss	33,434	159,963	34,419	61,018	67,853	220,981
Partial loss	312,935	187,070	97,572	18,104	410,507	205,175
Total	351,371	393,855	132,675	81,344	484,046	475,199

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 2013

Reinsurance claims paid in fiscal 2013 amounted to 22 billion yen, including earthquake reinsurance claims paid to cover the 2011 off the Pacific coast of Tohoku Earthquake. In terms of numbers, 30,275 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	18,239	14,007
2. Awajishima fukin	April 13, 2013	6.3	2,765	2,224
3. Tokachi-chiho Nanbu	February 2, 2013	6.5	3,643	1,878
4. Fukushima-ken Hamadori	September 20, 2013	5.9	1,930	1,139
5. Sanriku-oki	December 7, 2012	7.2	1,515	1,097
Other earthquakes	—	—	2,183	1,666
Total	—	—	30,275	22,014

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

(As of March 31, 2014)

Earthquake (Region name)	No. of households (A) (1,000 households)	No. of contracts (B) (1,000 contracts)	Amount insured (million yen)	Percentage of house- holds with insurance (B/A) (%)	Probability that an earthquake could occur within the next 30 years
Great Kanto	25,029	8,047	69,273,455	32.2	Nearly 0%–5%
Tokyo metropolitan	17,665	5,841	49,577,335	33.1	About 70%
Nankai trough	42,702	12,828	110,545,160	30.0	About 70%

Note 1: JER has created the table, assuming the main prefectures to be affected.

2: The probability that an earthquake could occur within the next 30 years is based on the 2014 version of the National Seismic Hazard Maps for Japan of the Headquarters for Earthquake Research Promotion of the Japanese government.

The probability of a Great Kanto Earthquake is that of a magnitude 8 earthquake along the Sagami Trough. The probability of an inland earthquake in Tokyo metropolitan area is that of a magnitude 7 earthquake to be caused by a sinking plate along the Sagami Trough.

## 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, 2014)

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	783,031	1,257,911
2. Hyogo-ken Nanbu	January 17, 1995	7.3	65,427	78,346
3. Miyagi-ken-oki	April 7, 2011	7.2	30,942	32,321
4. Fukuoka-ken Seiho-oki	March 20, 2005	7.0	22,043	16,951
5. Geiyo	March 24, 2001	6.7	24,451	16,941
6. Niigata-ken Chuetsu	October 23, 2004	6.8	12,607	14,897
7. Niigata-ken Chuetsu-oki	July 16, 2007	6.8	7,863	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	9,458	5,131
12. Shizuoka-ken Tobu	March 15, 2011	6.4	5,155	4,526
13. Iwate-ken Engan Hokubu	July 24, 2008	6.8	7,754	3,972
14. Fukushima-ken Hamadori	April 11, 2011	7.0	2,341	3,652
15. Nagano-ken Chubu	June 30, 2011	5.4	2,937	3,292
16. Tottori-ken Seibu	October 6, 2000	7.3	4,078	2,868
17. Noto Hanto	March 25, 2007	6.9	3,305	2,731
18. Awajishima fukin	April 13, 2013	6.3	2,765	2,224
19. Miyagi-ken Hokubu	July 26, 2003	6.4	2,543	2,172
20. Miyagi-ken-oki	May 26, 2003	7.1	2,970	1,918

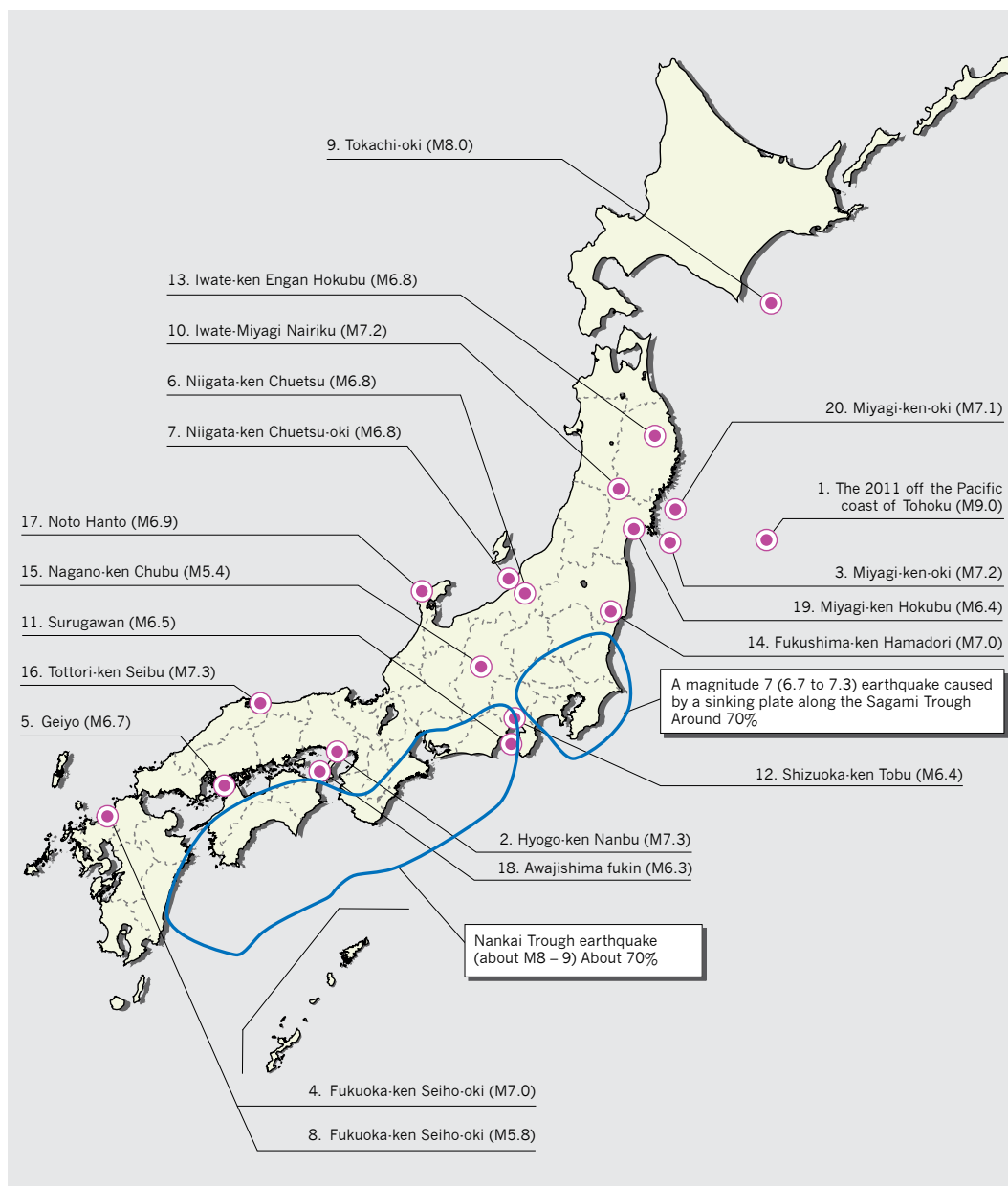
Note 1: After the 2011 Great East Japan Earthquake, in accordance with our reinsurance scheme at the time, the government paid 571,455 million yen and private non-life insurance companies paid 686,455 million yen.

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 2013, the Japanese economy was steady overall, reflecting an increase in exports thanks to the weaker yen linked to the government and the Bank of Japan's large-scale monetary easing policy to overcome deflation, the recovery in overseas economies, especially the U.S., as well as a recovery in personal spending due to an improvement in the employment situation and a spike in demand before the consumption tax hike.

Earthquake insurance premiums increased as in the previous fiscal year. 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 out.

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 2013, the second year of our third medium-term business plan, we have steadily implemented measures, primarily measures in response to massive earthquakes and consecutive earthquakes and the strengthening of our business continuity plan in anticipation of an inland earthquake to strike Tokyo that may affect the company.

### Summary of earthquake insurance results

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

In the fiscal year under review, despite an increase in premiums, net premiums written fell 0.8% year on year, to 92.2 billion yen, reflecting a 13.9% year-on-year rise in reinsurance premiums ceded associated with an increase in the government's share of reinsurance after a revision to the reinsurance scheme.

Meanwhile, net claims paid came to 15.0 billion yen (down 52.5% 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 41.3 billion yen (down 14.1% year on year), which is the total of net premiums written of 38.8 billion yen, given by deducting assumed reinsurance commissions from net premiums written, and a profit of 2.4 billion yen from investments.

Risk reserves at the end of the fiscal year under review were 378.0 billion yen (up 7.1% year on year), reflecting the reversal of the provision for outstanding claims of 1.3 billion yen to risk reserves and drawing from risk reserves in the past year of net claims paid of 15.0 billion yen, loss adjustment expenses of 2.2 billion yen, and advertising and publicity expenses of 0.2 billion yen.

Underwriting reserves at the end of the fiscal year under review totaled 499.2 billion yen (up 8.2% year on year), after adding unearned premium reserves and repayment reserves to the risk reserves.

#### ③ Risk reserves of direct insurance companies

The risk reserves of direct insurance companies recorded as entrusted reserves were 72.5 billion yen for the fiscal year under review (up 5.6% year on year), obtained by adding net premiums written and profit from investments of 4.6 billion yen (down 29.8% year on year), reversing publicity expenses of 0.8 billion yen.

### Outline of investments

Medium- to long-term domestic interest rates became unstable due to the effect of the quantitative and qualitative monetary easing policy introduced at the Bank of Japan's Monetary Policy Meeting in April and rose sharply in May. Subsequently, however, medium- to

long-term domestic interest rates stabilized and were on a downward trend toward the end of the fiscal year. The yen fell noticeably against both the dollar and the euro, reflecting the deterioration of Japan's current account balance and the Bank of Japan's introduction of the significant monetary easing policy. The yen depreciated approximately 9 yen against the dollar and approximately 21 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 2.7 billion yen in the business account and 0.4 billion yen in the entrusted reserves account. Consequently, investment assets at the end of the year under review stood at 563.7 billion yen.

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

We carefully examined the realizability of deferred tax assets, taking into account the possibility of our inability to secure sufficient taxable profits from investments due to our asset management policy prioritizing safety and liquidity and super-low interest rates in the asset management environment, and revised all deferred tax assets of 92 million yen and posted that as an income taxes-deferred.

Reflecting this, a net loss of 82 million yen was posted in the fiscal year under review.

### Challenges to address

As the people's expectations of earthquake insurance and their interest in it are increasing, we believe that our role and responsibility will become increasingly important. In fiscal 2014, the final year of the third medium-term business plan, JER will continue to take steps to promote earthquake insurance, focusing on massive earthquakes, consecutive earthquakes, and inland earthquakes in the Tokyo metropolitan area, to strengthen its corporate governance system, including an integrated risk management system, and to bolster its IT governance.

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

(Yen in millions)

Division	Fiscal Year	2009	2010	2011	2012	2013
Net premiums written		72,225	71,532	83,671	92,996	92,248
Percentage change over the previous term		7.6%	(1.0%)	17.0%	11.1%	(0.8%)
Ordinary income		99,464	175,903	286,812	110,370	104,703
Percentage change over the previous term		17.0%	76.9%	63.1%	(61.5%)	(5.1%)
Ordinary expenses		98,512	174,913	286,723	110,176	104,509
Percentage change over the previous term		16.2%	77.6%	63.9%	(61.6%)	(5.1%)
Ordinary profit		951	990	89	193	194
Percentage change over the previous term		374.2%	4.1%	(91.0%)	117.5%	0.3%
Net income (loss)		5	3	(5)	4	(82)
Percentage change over the previous term		(58.9%)	(30.2%)	(239.9%)	-	(2,045.2)
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		1,633	1,634	1,631	1,633	1,544
Total assets		1,092,272	1,154,108	509,498	536,808	577,305
Underwriting reserves		585,820	515,981	430,700	461,480	499,274
Percentage change over the previous term		7.4%	(11.9%)	(16.5%)	7.1%	8.2%
Of the balance, risk reserves		496,708	424,401	331,499	352,830	378,041
Percentage change over the previous term		8.0%	(14.6%)	(21.9%)	6.4%	7.1%
Loans		-	-	-	-	-
Percentage change over the previous term		-	-	-	-	-
Securities		1,006,947	805,223	448,120	476,979	525,161
Percentage change over the previous term		5.6%	(20.0%)	(44.3%)	6.4%	10.1%
Non-consolidated solvency-margin ratio		161.6%	124.7%	120.8%	160.0%	344.9%
Dividend propensity		-	-	-	-	-
No. of employees		26	25	26	27	26

### Note:

For a stricter risk measurement, revised laws and regulations concerning the calculation of the non-consolidated solvency-margin ratio have been applied since fiscal 2011. JER's solvency-margin ratio will not be used as a criterion for the administrative authorities' order for improvement. For details, please refer to page 40.

## SUMMARY OF OPERATIONS

Item: earthquake

### 1 Indicators relating to insurance underwriting

#### 1. Net premiums written

(Yen in millions)

Division	Fiscal Year	2011	2012	2013
Premiums written		171,223	185,568	197,919
Return premiums		2,504	2,642	3,271
Assumed net premiums written (A)		168,676	182,895	194,628
Reinsurance premiums ceded (B)		85,005	89,899	102,379
Net premiums written (A-B)		83,671	92,996	92,248

### 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	2011	2012	2013
Domestic contract		100%	100%	100%

#### 3. Net claims paid

(Yen in millions)

Division	Fiscal Year	2011	2012	2013
Assumed net claims paid (A)		1,240,600	55,883	22,014
Reinsurance claims recovered (B)		1,043,975	24,276	7,003
Net claims paid (A-B)		196,625	31,607	15,010

### 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	2011	2012	2013
Net loss ratio		282.9%	39.2%	18.7%
Underwriting expenses		35,677	38,867	41,134
Insurance related operating, general and administrative expenses		551	725	722
Commissions and brokerage fees		35,126	38,141	40,411
Net expense ratio		42.6%	41.8%	44.6%
Combined ratio		325.5%	81.0%	63.3%

##### 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	2011	2012	2013
Underwriting income		272,503	106,333	96,358
Underwriting expenses		271,872	105,420	95,447
Operating and general administrative expenses		551	725	722
Other income and expenses		(79)	(186)	(188)
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.

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

Division	Fiscal Year	2011	2012	2013
No. of reinsurers that ceded insurance contracts		14	13	11
Rate of top five reinsurers' ceded insurance premiums		81.8%	81.9%	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 2011		As of the end of fiscal 2012		As of the end of fiscal 2013	
		Amount	Percentage distribution (%)	Amount	Percentage distribution (%)	Amount	Percentage distribution (%)
Deposits		17,190	3.4	25,938	4.8	23,892	4.1
Call loans		30,105	5.9	21,137	3.9	14,634	2.5
Monetary receivable bought		-	-	-	-	-	-
Money trusts		-	-	-	-	-	-
Securities		448,120	88.0	476,979	88.9	525,161	91.0
Buildings		35	0.0	33	0.0	31	0.0
Total of investments assets		495,450	97.3	524,088	97.6	563,719	97.6
Total assets		509,498	100.0	536,808	100.0	577,305	100.0

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

Division	Fiscal Year	2011		2012		2013	
		Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
Deposits		83	0.69	32	0.18	23	0.09
Call loans		46	0.05	8	0.05	7	0.04
Monetary receivables bought		-	-	-	-	-	-
Money trusts		-	-	-	-	-	-
Securities		6,983	1.43	4,549	0.96	3,248	0.66
Buildings		-	-	-	-	-	-
Total		7,113	1.20	4,589	0.90	3,279	0.61

#### Note:

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

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

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

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

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

Division	Fiscal Year	2011			2012			2013		
		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		83	12,074	0.69	32	17,636	0.18	23	24,974	0.09
Call loans		46	94,217	0.05	8	18,067	0.05	7	19,385	0.04
Monetary receivables bought		-	-	-	-	-	-	-	-	-
Money trusts		-	-	-	-	-	-	-	-	-
Securities		9,127	488,267	1.87	4,548	473,767	0.96	3,346	490,629	0.68
Public and corporate bonds		3,253	273,696	1.19	1,711	325,550	0.53	1,054	356,649	0.30
Stocks		-	-	-	-	-	-	-	-	-
Foreign securities		5,874	214,570	2.74	2,837	148,217	1.91	2,292	133,980	1.71
Other securities		-	-	-	-	-	-	-	-	-
Loans		-	-	-	-	-	-	-	-	-
Buildings		-	37	-	-	35	-	-	33	-
Derivatives		8,358	-	-	(2,836)	-	-	(7,336)	-	-
Others		(10,599)	-	-	2,783	-	-	7,691	-	-
Total		7,016	594,596	1.18	4,536	509,507	0.89	3,731	535,023	0.70

#### 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.



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

(Yen in millions)

Division	2011			2012			2013		
	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	83	12,074	0.69	32	17,636	0.18	23	24,974	0.09
Call loans	46	94,217	0.05	8	18,067	0.05	7	19,385	0.04
Monetary receivables bought	-	-	-	-	-	-	-	-	-
Money trusts	-	-	-	-	-	-	-	-	-
Securities	5,349	496,699	1.08	4,067	478,421	0.85	2,182	494,802	0.44
Public and corporate bonds	1,821	277,057	0.66	1,666	327,480	0.51	898	358,533	0.25
Stocks	-	-	-	-	-	-	-	-	-
Foreign securities	3,527	219,641	1.61	2,401	150,940	1.59	1,284	136,268	0.94
Other securities	-	-	-	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-	-	-
Buildings	-	37	-	-	35	-	-	33	-
Derivatives	8,358	-	-	(2,836)	-	-	(7,336)	-	-
Others	(10,599)	-	-	2,783	-	-	7,691	-	-
Total	3,237	603,029	0.54	4,055	514,160	0.79	2,567	539,196	0.48

### 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 2011		As of the end of fiscal 2012		As of the end of fiscal 2013	
		Amount	Percentage distribution (%)	Amount	Percentage distribution (%)	Amount	Percentage distribution (%)
Foreign currency denominated							
Foreign public and corporate bonds		55,435	35.1	36,347	28.2	70,357	49.7
Yen denominated							
Foreign public and corporate bonds		102,638	64.9	92,494	71.8	71,164	50.3
Total		158,073	100.0	128,842	100.0	141,522	100.0
Yield on foreign loans & investments							
Investment assets yield (income yield)			2.19%		1.91%		1.71%
Assets management (realized yield)			2.74%		1.91%		1.71%
Market-price based overall yield (for reference)			1.61%		1.59%		0.94%

### 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 Information on the non-consolidated solvency-margin ratio (the ratio that shows the ability to pay out claims)**

(Yen in millions)

Division	Year	As of the end of fiscal 2012	As of the end of fiscal 2013
Total amount of non-consolidated solvency-margin		357,917	381,954
Common stock, etc.		1,619	1,536
Price fluctuation reserves		5	5
Risk reserves		-	-
Catastrophe reserves		352,830	378,041
Reserves for ordinary bad debts		-	-
Unrealized gain / loss on available-for-sale securities (prior to tax effect deductions)		3,184	2,370
(A) 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		277	-
Total amount of non-consolidated risk $\sqrt{(R1 + R2)^2 + (R3 + R4)^2} + R5 + R6$		447,267	221,459
General underwriting risk (R1)		-	-
Underwriting risk in third-area insurance (R2)		-	-
(B) Anticipated rate of return risk (R3)		-	-
Investment risk (R4)		10,497	11,017
Management risk (R5)		8,769	4,342
Catastrophe risk (R6)		428,000	206,100
(C) Non-consolidated solvency-margin ratio $\frac{(A)}{\{(B) \times 1 / 2\}} \times 100$		160.0%	344.9%

**Note:**

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.

**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.

For a stricter risk measurement, revised laws and regulations concerning the calculation of the non-consolidated solvency-margin ratio have been applied since fiscal 2011.

**[Unforeseeable risk] (Total of risks): Sum of 1–5**

- 1. General underwriting risk:** risk associated with an insurance accident rate that is higher than normally predictable (other than the risk associated with a huge disaster).
- 2. Anticipated ratio of return risk:** 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.
- 3. Investment risk:** management risk that might arise when the value of assets owned including securities changes in an unforeseeable manner.
- 4. Management risk:** risk that might arise on business management in an unforeseeable manner, other than 1–3 and 5.
- 5. Catastrophe risk:** risk that might arise with a huge disaster (such as the Great Kanto Earthquake) which is normally unforeseeable.

Capability of payment by non-life insurance company owned capital and reserves (total 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	
	2012 (As of March 31, 2013)	2013 (As of March 31, 2014)
<b>Cash and deposits</b>	<b>25,938</b>	<b>23,892</b>
Deposits	25,938	23,892
<b>Call loans</b>	<b>21,137</b>	<b>14,634</b>
<b>Securities</b>	<b>476,979</b>	<b>525,161</b>
Government bonds	328,071	378,735
Corporate bonds	20,065	4,904
Foreign securities	128,842	141,522
<b>Tangible fixed assets</b>	<b>117</b>	<b>84</b>
Buildings	33	31
Other tangible fixed assets	84	52
<b>Intangible fixed assets</b>	<b>232</b>	<b>158</b>
Software	231	156
Other intangible fixed assets	1	1
<b>Other assets</b>	<b>12,316</b>	<b>13,375</b>
Reinsurance balance receivable	9,962	11,519
Accounts receivable	223	-
Uncollected income	1,155	1,690
Deposits	50	47
Suspense payments	287	61
Derivatives	608	55
Cash collateral paid for financial instruments	28	-
<b>Deferred tax assets</b>	<b>86</b>	<b>-</b>
<b>Total assets</b>	<b>536,808</b>	<b>577,305</b>

#### (LIABILITIES)

Item	(Yen in millions)	
	Fiscal Year	
	2012 (As of March 31, 2013)	2013 (As of March 31, 2014)
<b>Underwriting funds</b>	<b>466,407</b>	<b>502,854</b>
Outstanding claims	4,927	3,579
Underwriting reserves	461,480	499,274
<b>Entrusted reserves</b>	<b>55,127</b>	<b>59,243</b>
<b>Other liabilities</b>	<b>9,325</b>	<b>10,502</b>
Reinsurance balance payable	6,250	7,636
Corporate taxes payable	175	214
Deposits payable	5	3
Accrued amounts payable	240	128
Derivatives	2,653	2,518
<b>Reserve for retirement benefits</b>	<b>120</b>	<b>116</b>
<b>Reserve for directors' retirement benefits</b>	<b>14</b>	<b>18</b>
<b>Reserve for bonus payments</b>	<b>21</b>	<b>20</b>
<b>Reserves under the special law</b>	<b>5</b>	<b>5</b>
Reserve for price fluctuation	5	5
<b>Net unrealized gains on available-for-sale securities of earthquake insurance</b>	<b>4,152</b>	<b>2,996</b>
<b>Deferred tax liabilities</b>	<b>-</b>	<b>3</b>
<b>Total liabilities</b>	<b>535,175</b>	<b>575,761</b>

#### (NET ASSETS)

Item	(Yen in millions)	
	Fiscal Year	
	2012 (As of March 31, 2013)	2013 (As of March 31, 2014)
<b>Common stock</b>	<b>1,000</b>	<b>1,000</b>
<b>Retained earnings</b>	<b>625</b>	<b>542</b>
Legal reserve of retained earnings	1	1
Other legal reserve of retained earnings	624	541
Special reserves	17	17
Special price fluctuation reserves	39	39
Retained earnings brought forward	567	484
<b>Treasury Stock</b>	<b>(5)</b>	<b>(5)</b>
<b>Total shareholders' equity</b>	<b>1,619</b>	<b>1,536</b>
<b>Net unrealized gains on available-for-sale securities</b>	<b>13</b>	<b>7</b>
<b>Total valuation and translation adjustments</b>	<b>13</b>	<b>7</b>
<b>Total net assets</b>	<b>1,633</b>	<b>1,544</b>
<b>Total liabilities and net assets</b>	<b>536,808</b>	<b>577,305</b>

#### Notes for fiscal 2013

- 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.
  - 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 Net unrealized gains on other securities of earthquake insurance in Liabilities on the form attached to the 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.

4. Software for in-house use that is recorded as an intangible fixed asset is amortized using the straight-line method over the estimated 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 planning and controller 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 estimated retirement allowance liabilities at the end of the term.

Retirement allowance liabilities are 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. 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, 2014.

(Yen in millions)

	Balance sheet amount	Fair value	Difference
(i) Cash and deposits	23,892	23,892	-
(ii) Call loans	14,634	14,634	-
(iii) Securities Available-for-sale securities	525,161	525,161	-
Total assets	563,688	563,688	-
(iv) Derivatives* to which hedge accounting is not applied	(2,463)	(2,463)	-
Derivatives total	(2,463)	(2,463)	-

\* 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

Cash and deposits are settled in the short term and their fair values are based on 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 based on their carrying values as their fair values and carrying values are similar.

(iii) Securities

The fair values of securities are based on their market prices at term end, 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.

8. Taxes are included when preparing accounts for consumption tax and other items.
9. 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.
10. The accumulated depreciation of tangible fixed assets is 132 million yen.
11. See below for a breakdown of outstanding claims.

(Yen in millions)	
Outstanding claims (before the deduction of outstanding reinsurance claims)	5,144
Outstanding reinsurance claims related to the above claims	1,565
Net outstanding claims	3,579

12. Total deferred tax assets amount to 87 million yen, while total deferred tax liabilities come to 3 million yen. Deferred tax assets are all deducted from the total amount for a valuation reserve. A breakdown of deferred tax assets reveals a reserve for retirement benefits of 35 million yen, unpaid business taxes of 21 million yen, and unpaid special local corporate tax of 15 million yen. The deferred tax liabilities result primarily from unrealized gains of 3 million yen on securities.
13. Net assets per share are 776.66 yen. The basis for this calculation is that net assets are 1,544 million yen, net assets accrued from ordinary shares are 1,544 million yen and the number of ordinary shares at the end of the term is 1.988 million.
14. 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.
15. Each amount is rounded down to the nearest whole unit.

## 2. Statements of income

Item	(Yen in millions)	
	Fiscal Year	
	2012 (from April 1, 2012 to March 31, 2013)	2013 (from April 1, 2013 to March 31, 2014)
	Amount	Amount
<b>Ordinary income</b>	<b>110,370</b>	<b>104,703</b>
<b>Underwriting income</b>	<b>106,333</b>	<b>96,358</b>
Net premiums written	92,996	92,248
Investment income on savings premiums	3,369	2,761
Reversal of outstanding claims	9,967	1,348
<b>Investment income</b>	<b>4,031</b>	<b>8,339</b>
Interest and dividend income	4,589	3,279
Gains on sales of securities	-	100
Foreign exchange gains	2,809	7,712
Other investment income	1	8
Transfer of profit from Investment income on savings premiums	(3,369)	(2,761)
<b>Other ordinary income</b>	<b>5</b>	<b>6</b>
<b>Ordinary expenses</b>	<b>110,176</b>	<b>104,509</b>
<b>Underwriting expenses</b>	<b>105,420</b>	<b>95,447</b>
Net claims paid	31,607	15,010
Loss adjustment expenses	4,892	2,230
Commissions and brokerage fees	38,141	40,411
Provision of underwriting reserves	30,779	37,794
<b>Investment expenses</b>	<b>2,865</b>	<b>7,368</b>
Losses on sales of securities	0	2
Losses on derivatives	2,836	7,336
Other investment expenses	27	29
<b>Operating, general and administrative expenses</b>	<b>1,273</b>	<b>1,289</b>
<b>Other ordinary expenses</b>	<b>617</b>	<b>404</b>
Interest paid	617	404
<b>Ordinary profit</b>	<b>193</b>	<b>194</b>
<b>Extraordinary income</b>	<b>0</b>	<b>-</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>194</b>	<b>194</b>
<b>Income taxes – current</b>	<b>199</b>	<b>184</b>
<b>Income taxes – deferred</b>	<b>(9)</b>	<b>92</b>
<b>Total income taxes</b>	<b>189</b>	<b>277</b>
<b>Net income (loss)</b>	<b>4</b>	<b>(82)</b>

## Notes for fiscal 2013

1. See below for a breakdown of net premiums written.

(Yen in millions)	
Premiums written:	194,628
Reinsurance premiums ceded:	102,379
Net premiums written:	92,248

2. See below for a breakdown of net claims paid.

(Yen in millions)	
Claims paid:	22,014
Reinsurance claims recovered:	7,003
Net claims paid:	15,010

3. 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)	(2,527)
Provision of outstanding reinsurance claims related to the above claims	(1,179)
Net provision of outstanding claims	(1,348)

4. The interest and dividend income are given below by category:

(Yen in millions)	
Deposits:	23
Call loans:	7
Interest on cash collateral and other financial instruments submitted:	0
Securities:	3,248
Total:	3,279

5. Paper profit/loss involved in the losses on derivatives is a loss of 2,463 million yen.

6. Net loss per share is 41.63 yen.

The basis for this calculation is such that net loss is 82 million yen, net loss accrued from ordinary shares is 82 million yen and the term average No. of ordinary shares amount to 1.988 million.

7. 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 142.60%. The difference is explained by the following breakdown: valuation reserve 42.53%, the non-deductible amount of the taxable provision of risk reserves 101.58%, the amount of the write-off carried from publicity expenses related to risk reserves (37.05%).

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

### 3. Statements of cash flow

Item	(Yen in millions)	
	Fiscal Year	2012 (from April 1, 2012 to March 31, 2013)
	Amount	Amount
<b>Cash flow from operating activities</b>		
Net income before income taxes	194	194
Depreciation	104	134
Increase (decrease) in outstanding claims	(9,967)	(1,348)
Increase (decrease) in underwriting reserves	30,779	37,794
Increase (decrease) in entrusted reserves	6,061	4,115
Increase (decrease) in reserve for retirement benefits	15	(4)
Increase (decrease) in reserve for directors' retirement benefits	(1)	4
Increase (decrease) in reserve for bonus payments	1	(0)
Increase (decrease) in reserve for price fluctuation	(0)	0
Interest and dividend income	(4,589)	(3,279)
Losses (gains) on investment in securities	0	(98)
Foreign exchange losses (gains)	(8,518)	(6,790)
Losses (gains) on tangible fixed assets	0	0
Decrease (increase) in other assets (other than investment and financial activities related)	(380)	(1,104)
Increase (decrease) in other liabilities (other than investment and financial activities related)	(673)	1,272
Others	2,974	404
Subtotal	16,001	31,294
Interest and dividends received	5,342	4,088
Income taxes paid	(160)	(130)
Net cash provided by operating activities	21,182	35,252
<b>Cash flow from investing activities</b>		
Net decrease (increase) in deposits	4,500	-
Purchase of securities	(559,847)	(628,856)
Proceeds from sales and redemption of securities	538,680	585,053
Others	-	28
Total investment assets activities	(16,666)	(43,774)
Total operating activities and investment assets activities	4,516	(8,522)
Acquisition of tangible fixed assets	(87)	(0)
Others	(148)	(25)
Net cash provided by investing activities	(16,902)	(43,801)
<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>	4,280	(8,548)
<b>Cash and cash equivalents at the beginning of the year</b>	31,795	36,075
<b>Cash and cash equivalents at the end of the year</b>	36,075	27,526

### Notes for fiscal 2013

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

	(Yen in millions)	
	(As of March 31, 2013)	(As of March 31, 2014)
Cash and deposits	25,938	23,892
Call loans	21,137	14,634
Securities	476,979	525,161
Deposits of a depository period of three months or longer	(11,000)	(11,000)
Securities other than cash equivalent	(476,979)	(525,161)
Cash and cash equivalents	36,075	27,526

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

Fiscal 2012 (from April 1, 2012 to March 31, 2013)

(Yen in millions)

	Shareholder's equity						Valuation and translation adjustments:		Total net assets		
	Common stock	Retained earnings				Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities		Total valuation and translation adjustments:	
		Legal reserve of retained earnings	Other legal reserve of retained earnings		Retained earnings brought forward						
		Special reserves	Special price fluctuation reserves		Total retained earnings						
Balance at the beginning of the period	1,000	1	17	39	563	620	(5)	1,615	16	16	1,631
Changes during the period											
Net income					4	4		4			4
Net changes other than shareholders' equity									(2)	(2)	(2)
Total changes					4	4		4	(2)	(2)	1
Balance at the end of the period	1,000	1	17	39	567	625	(5)	1,619	13	13	1,633

Fiscal 2013 (from April 1, 2013 to March 31, 2014)

(Yen in millions)

	Shareholder's equity						Valuation and translation adjustments:		Total net assets		
	Common stock	Retained earnings				Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities		Total valuation and translation adjustments:	
		Legal reserve of retained earnings	Other legal reserve of retained earnings		Retained earnings brought forward						
		Special reserves	Special price fluctuation reserves		Total retained earnings						
Balance at the beginning of the period	1,000	1	17	39	567	625	(5)	1,619	13	13	1,633
Changes during the period											
Net income (loss)					(82)	(82)		(82)			(82)
Net changes other than shareholders' equity									(5)	(5)	(5)
Total changes					(82)	(82)		(82)	(5)	(5)	(88)
Balance at the end of the period	1,000	1	17	39	484	542	(5)	1,536	7	7	1,544

#### Notes for fiscal 2013

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

		(Stock)			
		Balance as of the end of fiscal 2012	Increase in fiscal 2013	Decrease in fiscal 2013	Balance as of the end of fiscal 2013
Issued stock	Ordinary stock	2,000,000	-	-	2,000,000
	Total	2,000,000	-	-	2,000,000
Treasury stock	Ordinary stock	11,400	-	-	11,400
	Total	11,400	-	-	11,400

- Matters related to stock options or own stock options  
Not applicable

- Matters related to dividends  
Not applicable

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

(Yen in millions)

Division	Fiscal Year		
	2011	2012	2013
Dividend per stock	-	-	-
Net income (loss) per stock	(2.52 yen)	2.14 yen	(41.63 yen)
Dividend propensity	-	-	-
Net assets per stock	820.30 yen	821.18 yen	776.66 yen
Total assets per employee	19,596	19,881	22,204

#### Notes:

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



## ② Details of assets and liabilities

### 1. Deposits

Division	(Yen in millions)			
	Year	As of the end of fiscal 2011	As of the end of fiscal 2012	As of the end of fiscal 2013
Deposits		17,190	25,938	23,892
Ordinary deposits		1,690	8,908	3,832
Time deposits		15,500	17,030	20,060

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

Not applicable

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

Division	(Yen in millions)					
	Year	As of the end of fiscal 2011		As of the end of fiscal 2012		As of the end of fiscal 2013
		Percentage distribution (%)	As of the end of fiscal 2011	Percentage distribution (%)	As of the end of fiscal 2012	Percentage distribution (%)
Government bonds	248,634	55.5	328,071	68.8	378,735	72.1
Municipal bonds	-	-	-	-	-	-
Corporate bonds	41,411	9.2	20,065	4.2	4,904	0.9
Stocks	-	-	-	-	-	-
Foreign securities	158,073	35.3	128,842	27.0	141,522	26.9
Other securities	-	-	-	-	-	-
Loan receivable in securities	-	-	-	-	-	-
Total	448,120	100.0	476,979	100.0	525,161	100.0

### 4. Yield on securities held

Division	Fiscal Year (%)		
	2011	2012	2013
Investment assets yield (income yield)			
Public & corporate bonds	0.83	0.53	0.27
Stocks	-	-	-
Foreign securities	2.19	1.91	1.71
Other securities	-	-	-
Total	1.43	0.96	0.66
Assets management yield (realized yield)			
Public & corporate bonds	1.19	0.53	0.30
Stocks	-	-	-
Foreign securities	2.74	1.91	1.71
Other securities	-	-	-
Total	1.87	0.96	0.68
Market-price based overall yield (for reference)			
Public & corporate bonds	0.66	0.51	0.25
Stocks	-	-	-
Foreign securities	1.61	1.59	0.94
Other securities	-	-	-
Total	1.08	0.85	0.44

**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 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

### As of the end of fiscal 2013

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	246,622	31,744	50,414	41,312	1,052	7,587	378,735
Municipal bonds	-	-	-	-	-	-	-
Corporate bonds	2,302	2,601	-	-	-	-	4,904
Stocks	-	-	-	-	-	-	-
Foreign securities	31,138	89,794	20,589	-	-	-	141,522
Other securities	-	-	-	-	-	-	-
Loan receivable in securities	-	-	-	-	-	-	-
Total	280,063	124,141	71,004	41,312	1,052	7,587	525,161

### 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. Credits classified in accordance with debtor classification

Not applicable

### 11. 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 of March 31, 2014.

### 12. Tangible fixed assets by category

(Yen in millions)

Division	Year	As of the end of fiscal 2011	As of the end of fiscal 2012	As of the end of fiscal 2013
Land		-	-	-
for underwriting		-	-	-
for investment		-	-	-
Buildings		35	33	31
for underwriting		35	33	31
for investment		-	-	-
Construction in progress		-	-	-
for underwriting		-	-	-
for investment		-	-	-
Total of property		35	33	31
for underwriting		35	33	31
for investment		-	-	-
Other tangible fixed assets		8	84	52
Total		43	117	84

### 13. Unearned claims paid

Not applicable

### 14. Special account

Not applicable

### 15. Underwriting funds

(Yen in millions)

Division	Year	As of the end of fiscal 2011	As of the end of fiscal 2012	As of the end of fiscal 2013
Outstanding claims		14,895	4,927	3,579
Underwriting reserves		430,700	461,480	499,274
Risk reserves		331,499	352,830	378,041
Unearned premium reserves		97,686	107,140	119,727
Repayment reserves		1,514	1,509	1,505
Total		445,595	466,407	502,854

### 16. Level of underwriting reserves

There is no target contact.

### 17. Detailed listing of liability reserves

#### As of the end of fiscal 2012

(Yen in millions)

Division	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

#### As of the end of fiscal 2013

(Yen in millions)

Division	Balance as of the end of fiscal 2012	Increase in fiscal 2013	Decrease in fiscal 2013	Balance as of the end of fiscal 2013
Reserve for ordinary bad debts	-	-	-	-
Reserve for individual bad debts	-	-	-	-
Reserve for specific foreign securities	-	-	-	-
Reserve for retirement benefits	120	19	23	116
Reserve for directors' retirement benefits	14	4	0	18
Reserve for bonus payments	21	20	21	20
Reserve for price fluctuation	5	0	-	5
Total	161	44	45	161

### 18. Detailed listing of shareholders' equity

Please refer to the statement of changes in shareholders' equity on page 46.

### ③ Income and loss details

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

(Yen in millions)				
Division	Fiscal Year	2011	2012	2013
Government bonds		1,116	–	100
Foreign securities		1,247	–	–
Total		2,364	–	100

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

(Yen in millions)				
Division	Fiscal Year	2011	2012	2013
Government bonds		145	–	2
Foreign securities		75	0	–
Total		220	0	2

#### 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	2011	2012	2013
Land		–	–	–
Buildings		–	–	–
Other tangible fixed assets		0	0	0
Total		0	0	0

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

(Yen in millions)				
Division	Fiscal Year	2011	2012	2013
Personnel expenses		11,636	1,031	496
Non personnel expenses		29,330	4,881	2,773
Taxes		228	252	249
Commissions and brokerage fees		35,126	38,141	40,411
Total		76,322	44,307	43,931

**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 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	–	–	–	–	–
Other tangible fixed assets	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

#### As of the end of fiscal 2013

(Yen in millions)					
Type of asset	Acquisition cost	Depreciation in fiscal 2013	Aggregated depreciations	Balance as the end of fiscal 2013	Rate of aggregated depreciations %
<b>Tangible fixed assets</b>					
Buildings	101	2	70	31	68.9
for underwriting	101	2	70	31	68.9
for investment	–	–	–	–	–
Other tangible fixed assets	115	32	62	52	54.1
Total	217	34	132	84	61.1
<b>Intangible fixed assets</b>					
Software	562	100	405	156	72.1
Other intangible fixed assets	1	0	0	1	12.7
Total	563	100	405	158	72.0
Grand total	780	134	538	242	68.9

#### 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 7 on the balance sheet (page 42).

##### 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 2012

(Yen in millions)

Division	Type	Acquisition cost	Book value	Difference
Securities whose carrying amount exceeds their cost	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 whose carrying amount does not exceed their cost	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

###### At the end of fiscal 2013

(Yen in millions)

Division	Type	Acquisition cost	Book value	Difference
Securities whose carrying amount exceeds their cost	Public & corporate bonds	190,481	192,232	1,750
	Stocks	-	-	-
	Foreign securities	121,335	127,001	5,665
	Others	-	-	-
	Subtotal	311,817	319,233	7,415
Securities whose carrying amount does not exceed their cost	Public & corporate bonds	191,429	191,407	(21)
	Stocks	-	-	-
	Foreign securities	14,561	14,520	(40)
	Others	-	-	-
	Subtotal	205,990	205,928	(62)
Total		517,808	525,161	7,353

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

(Yen in millions)

Type	Fiscal 2012			Fiscal 2013		
	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	100	-	0	7,541	100	2

##### 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 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)

###### At the end of fiscal 2013

(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	28,819	-	(564)	(564)
Euro	36,703	-	(1,899)	(1,899)
Total			(2,463)	(2,463)

###### 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 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)

###### At the end of fiscal 2013

(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	-	-	-	-
Total			-	-

###### 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, 2014)

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Established:	May 30, 1966
Capital:	1 billion yen
Total assets:	577.3 billion yen
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**