

# CHAPTER

# 1



## **BUSINESS PERFORMANCE IN FISCAL 2005**

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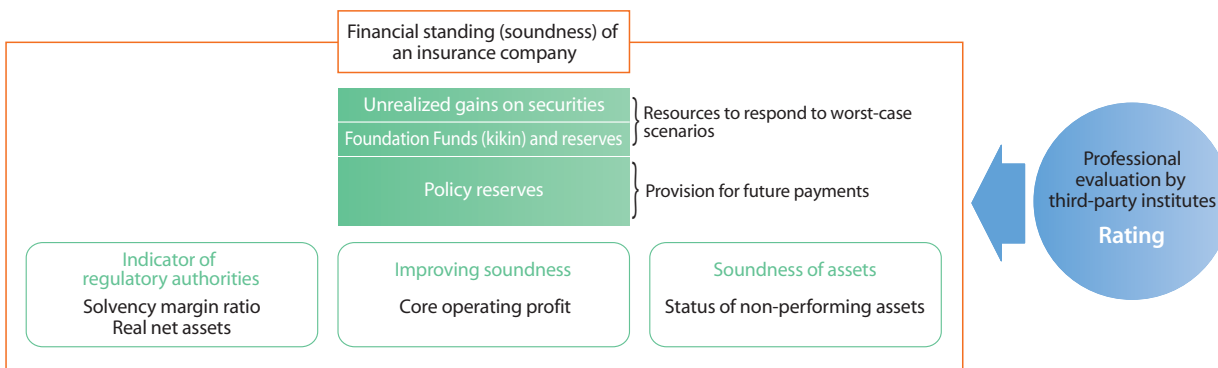
Life insurance contracts are long-term agreements with customers that typically continue over 20 to 30 year periods from the time the customer enters the agreement until insurance claims are paid out. To be able to make payments to customers faithfully, it is essential to maintain a sound financial standing and to prepare for all varieties of risk such as disasters. During fiscal 2005, Nippon Life achieved its short-term goal of ¥3 trillion in foundation funds [kikin] and reserves. The following describes the status of the indicators of our soundness and profitability from a variety of perspectives, including that short-term goal.

In order to properly understand the soundness and profitability of a life insurance company, we believe it is necessary to comprehensively review a variety of indicators, including the following.

### Indicators of Soundness and Profitability

- In order to promote greater understanding of their financial standing, insurance companies disclose the same sort of information as is standard for ordinary listed companies (financial statements, cash flow statements, notes and supplementary materials, etc.). In addition to this, it is of particular importance that they provide information demonstrating the financial soundness to be able to pay insurance claims. For this reason, life insurance companies disclose the following sort of information suited to the unique characteristics of the insurance business.
  - Policy reserves that insurance companies accumulate and allocate for future insurance claims and other payouts
  - Foundation funds (kikin) and reserves\*, as well as unrealized gains on securities\*, as source funds to respond to the

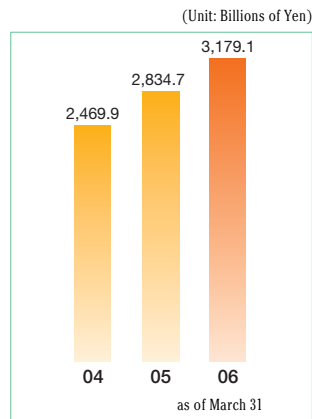
- occurrence of unforeseeable events such as earthquakes
- Indicators such as the solvency margin ratio and real net assets that are used during regulatory audits to confirm the financial soundness of an insurance company
- Core operating profit, an indicator of profitability, which enhances financial soundness
- In addition to these, we believe it is necessary to make a comprehensive assessment of a variety of indicators in order to properly understand a life insurance company's soundness. Among these indicators are non-performing assets, which is one indicator of the soundness of assets, as well as ratings by specialized external ratings companies that measure an insurance company's soundness and ability to make payments.



\* Foundation funds (kikin) and reserves are disclosed by Nippon Life. Unrealized gains on securities are generally disclosed by listed companies.

**Foundation Funds (Kikin) and Reserves**  
 Foundation funds (kikin) and reserves include the foundation funds, the reserve for redemption of foundation funds under capital, and contingency reserves, etc. under liabilities on the balance sheets, and is designated as a financial resource against risks, excluding unrealized gains on securities that are easily swayed by economic conditions.

#### Trends in Foundation Funds (Kikin) and Reserves



### Foundation Funds (kikin) and Reserves Reach ¥3 Trillion

**¥3,179.1 billion as of March 31, 2006**  
 (¥2,834.7 billion as of March 31, 2005)

Nippon Life believes that improving its ability to deal with risk and lessening its dependency on unrealized gains in securities, which are easily affected by economic conditions, are essential for strengthening the management base. Accordingly, through greater management efficiency and an additional offering, Nippon Life has steadily built up its foundation funds (kikin) and reserves, which include foundation funds and reserve for redemption of foundation funds, contingency reserves, and reserve for price fluctuations.

Nippon Life has aimed to enrich flexibility in capital procurement and to increase the scope of contributors to the foundation funds (kikin) through additional offerings. In the offering carried out in fiscal 2005, Nippon Life procured funds not only from individual and corporate investors in Japan, but also from international institutional investors.

As a result, the foundation funds (kikin) and reserves as of March 31, 2006 totaled ¥3,179.1 billion, marking the achievement of Nippon Life's targeted level of ¥3 trillion.

Having attained this goal, Nippon Life will make even more concerted efforts to maintain a balance between initiatives that contribute to greater mid- to long-term profitability and paying dividend discounts to policyholders. We will endeavor to maximize overall benefits for all customers. (See p.67 regarding the status of foundation funds (kikin) contributors and foundation funds).

Computed with the Most Conservative Legal Method for Policy Reserves

**¥39,418.1**  
billion as of March 31, 2006  
(¥38,794.3 billion as of March 31, 2005)

Life insurance companies are obliged to accumulate policy reserves in order to prepare for payments of future insurance claims, annuities and other benefits. At Nippon Life, we utilize the most conservative legal method (the net premium reserve method) for computing policy reserves in order to be fully prepared to meet insurance and other payment obligations. (See p.127).

Continued High Level of Unrealized Gains on Securities

**¥6,572.7**  
billion as of March 31, 2006  
(¥3,852.1 billion as of March 31, 2005)

The unrealized gains on securities indicate the positive difference that exists when fair value of securities exceeds book value. Unrealized gains on securities is one of the indicators for preparing against risks, although it is affected by economic conditions. (See p.152).

**Unrealized gains on securities**  
Unrealized gains on securities apply to all securities with fair value, and include negotiable deposits and other items that are handled as securities under the Securities and Exchange Act of Japan.

Solvency Margin Ratio to Respond to Worst-Case Scenarios

**1,257.9%**  
as of March 31, 2006  
(975.2% as of March 31, 2005)

The solvency margin indicates the leeway to make payments. In addition to the foundation funds (kikin) and reserves, it reflects unrealized gains (losses) on securities, etc. Risks that can normally be forecast can be covered by policy reserves. The solvency margin ratio is one of the indicators for regulatory agencies to determine whether or not a company has the leeway to pay benefits in the event that such a normally unforeseeable risk occurs, such as major catastrophes or stock market collapse. (See p.104).

**Solvency Margin Ratio**  
The solvency margin ratio is the total value of the solvency margin divided by the quantified amount of all risks exceeding those that can normally be forecast. When this ratio falls below 200%, the regulatory agency will issue an order to improve business performance.

**Solvency Margin Ratio**

(Unit: Billions of Yen, %)

As of March 31, 2006		
Total solvency margin	(A)	¥10,010.7
Foundation funds (kikin) and reserves		3,179.1
Unrealized gains and losses on other securities × 90%		5,790.2
Total amount of risk	(B)	1,591.5
Solvency margin ratio		
	$\frac{(A)}{\frac{1}{2} \times (B)} \times 100$	1,257.9%

Continued High Level of Real Net Assets

**¥10,663.0**  
billion as of March 31, 2006  
(¥7,554.7 billion as of March 31, 2005)

Real net assets is calculated by subtracting liabilities, other than contingency reserves and reserve for price fluctuations, from total assets at fair value. Approximating an insurance company's liquidation value, it is one of the indicators used by regulatory agencies.

**Real Net Assets**  
Also called the difference between real assets and liabilities. If this figure is negative, it is judged that liabilities exceed assets and the regulatory agency may issue an order to suspend business.

Sound Asset Levels Through Appropriate Reserves and Total Coverage

Non-performing asset ratio\* **0.58%**  
(0.59% as of March 31, 2005)

We are advancing recovery of non-performing assets and write offs, while maintaining an appropriate level of reserves at the same time. (See p.103 and p.105 for self-assessment of assets).

Total coverage (loans) ratio **96.4%**  
(93.7% as of March 31, 2005)

\*Includes loans made under lending contracts with cash collateral as of March 31, 2006. Calculated including the loan amount in this category, which was not included at year-end fiscal 2005.

## Negative Spread Covered Plus High-Level Core Operating Profit

# ¥633.6

billion for the year ended March 31, 2006  
(¥550.1 billion for the year ended March 31, 2005)

Core operating profit mainly consists of income related to insurance (the net of income from premiums less payments for insurance benefits and business costs) and income related to investment operations, including interest and dividend income. It is the fundamental index that reflects an insurance company's earnings position on a flow basis. (See p.113 for more details).

Total core operating profit for the year ended March 31, 2006 was calculated after taking account of the negative spread for the fiscal year, and it remained at a high level sufficient to pay dividends to policyholders and increase the contingency reserves against future risks.

### Negative Spreads

Amid a continuing condition of ultra-low interest rates, a deficit is created by the negative difference between the assumed return on insurance premium investments and actual investment return for some policyholders. This is called negative spread.

#### Nippon Life Provision for Negative Spreads

- In addition to covering ¥150.0 billion in negative spread, Nippon Life maintains ¥633.6 billion in core operating profit.
- To provide reserves for future negative spreads, Nippon Life makes the assumption that tough conditions with ultra-low interest rates

will continue, and has accumulated foundation funds (kikin) and reserves to cover insufficient amounts based on current net revenues from negative spreads on policies.

### Calculation of Negative Spreads

In the life insurance industry, negative spreads are calculated according to the following formula.

$$\begin{array}{l} \text{Negative spread} \\ \text{[Approximately ¥150 billion]} \end{array} = \left( \begin{array}{l} \text{Investment yield on core operating profit} \\ \text{[2.84\%]} \end{array} - \begin{array}{l} \text{Average assumed interest rate} \\ \text{[3.28\%]} \end{array} \right) \times \begin{array}{l} \text{General account policy reserves} \\ \text{[¥34,979.4 billion]} \end{array}$$

- Investment return on core operating profit is the return on general account policy reserves after deducting provision for accumulated interest on policyholder dividends from general account investment revenues included in core operating profit.
- Average assumed interest rate is the return of assumed interest on general account policy reserves.
- The general account policy reserves are calculated as follows for policy reserves in the general account, excluding the contingency reserves.  
(Policy reserves at beginning of period + Policy reserves at end of period - Assumed interest) / 2

### Excellent Ratings from Ratings Companies

(As of July 1, 2006)

**AA** R&I  
(Insurance Claims Paying Ability)

**AA-** Fitch  
(Insurer Financial Strength Rating)

**A+** S&P  
(Insurer Financial Strength Rating)

Nippon Life has obtained ratings from Rating and Investment Information, Inc. (R&I), Fitch Ratings Ltd. (Fitch) and Standard & Poor's (S&P). These ratings, issued by third party ratings agencies, are an evaluation of an insurance company's ability to pay insurance claims. We believe that obtaining these ratings is meaningful as a reference point for customers to objectively assess an insurance company.

We believe that the high ratings obtained from these three companies are based on a high appraisal of our strong business foundation, our superior capital position, our high level of profitability, and our financial flexibility in areas such as capital procurement. Looking forward, we are aiming to maintain and improve our ratings as a reassurance for our policyholders through increased profitability and capital expansion.

R&I's Definition of "AA" Rating  
<http://www.r-i.co.jp>

A very high degree of capacity for payment of insurance claims, and excellence in several key factors of evaluation.

Fitch's Definition of "AA" Rating  
<http://www.fitchratings.co.jp>

Very strong. Insurers are viewed as possessing very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small.

S&P's Definition of "A" Rating  
<http://www.standardandpoors.co.jp>

An insurer rated "A" has strong financial security characteristics to fulfill insurance policy obligations, but is somewhat more likely to be affected by adverse business conditions than are insurers with two higher ratings ("AAA", "AA").

\*The above-mentioned ratings express the certainty of an insurance company's ability to pay insurance claims, and are not guarantees for payment of insurance claims.

\*The above-mentioned ratings are based on information and data up to the time of each rating, and are subject to change in the future.

\*Nippon Life received the above-mentioned ratings from R&I, Fitch and S&P after officially requesting them and providing detailed information for more accurate evaluation.

Plus (+) or minus (-) signs following the above ratings show relative standing within the major rating categories.

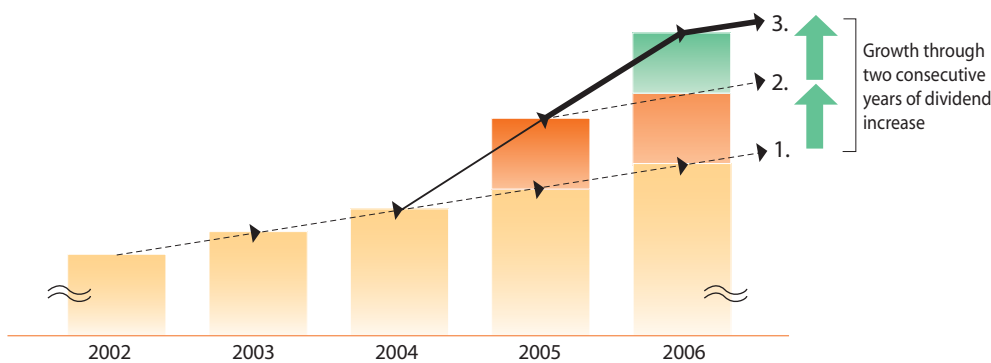
## Increased Policyholder Dividends for the Second Consecutive Year

Nippon Life strengthened its financial foundation in fiscal 2005, attaining its goal of ¥3 trillion in foundation funds (kikin) and reserves. We are allotting gains generated by this refortified foundation as dividend resources, further enhancing dividend discounts.

Concerning individual insurance and individual annuities, we are increasing management dividends primarily on level premium policies for the first time in 23 years. In addition, we are increasing specified health-related dividends for the second consecutive year.

### Diagram of Dividend Increase on EX Series (Policies from April 2, 1999)

1. Trend of dividend calculated at fiscal 2003 level
2. Trend of dividend calculated at fiscal 2004 level
3. Trend of dividend calculated at fiscal 2005 level



### Policyholder Dividends in Mutual Companies

Life insurance premiums are generally calculated based upon the principle of balancing revenues and expenditures. (See p.23 for more details on setting insurance premiums). Because life insurance contracts are long-term agreements, however, actual conditions may turn out different than expectations due to changes in the economic environment, increasing management efficiency or other factors. In the event that a surplus is generated by the difference between expectations and actual conditions, cash to be distributed to policyholders based on policy terms is deemed as policyholder dividends.

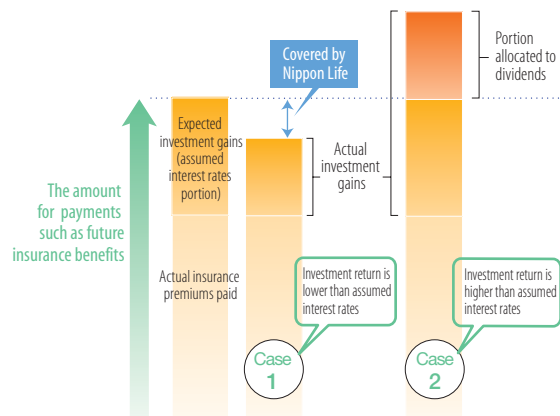
In fact, policyholder dividends could be classified, by nature, as post-settlement of insurance premiums that were originally calculated based upon assumed rates.

Life insurance contracts can be broadly classified into two categories, namely “participating insurance” where dividend payments are distributed, and “nonparticipating insurance” where no dividend payments are distributed.

Nippon Life employs a “participating insurance” mutual company format in which all policyholders are counted as members. Business profits are deemed “surplus,” the majority of which is returned to participating insurance policyholders as policyholder dividends.

### Dividend Framework (Portion Related to Assumed Rates)

The figure on below shows the framework for dividends based on assumed rates. Insurance premiums are calculated while discounting investment gains based on assumed rates. Even if actual investment profits are lower than expected, as in case number one in the figure, Nippon Life guarantees this discount on insurance premiums to stay the same.



## For Greater Customer Satisfaction

Under the slogan “Consistent Protection. Superior Services.” all Nippon Life employees are working in unity to further enhance customer satisfaction by offering better service.

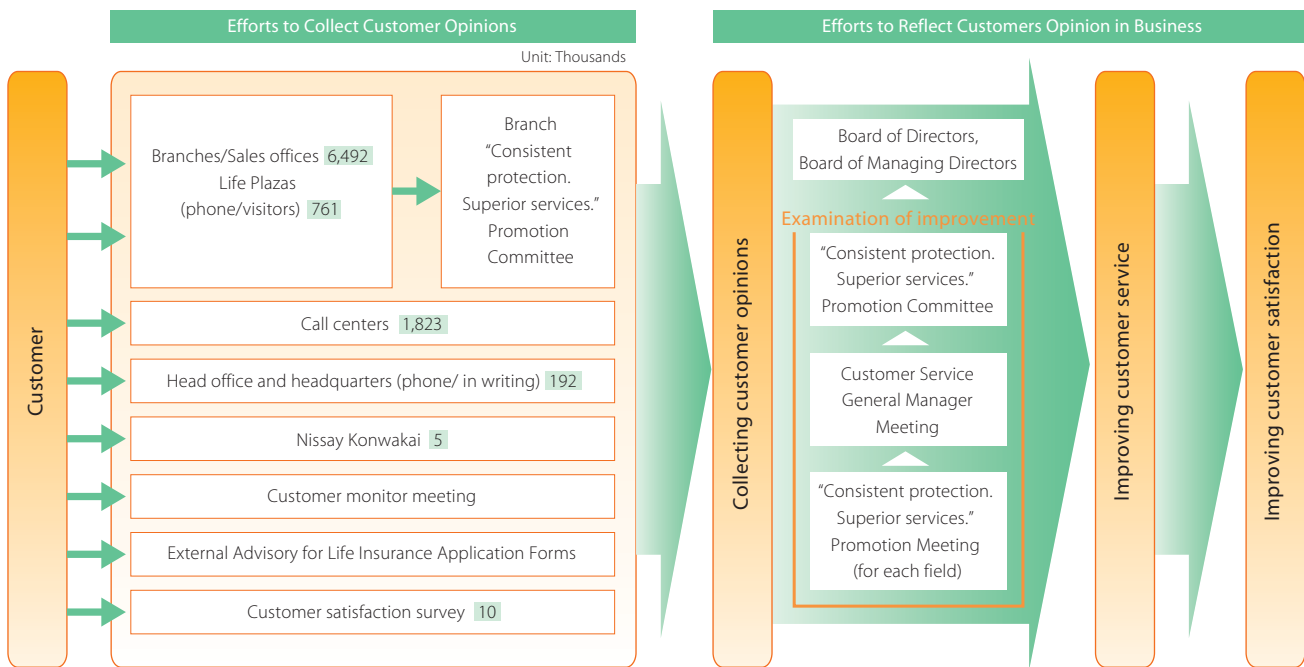
We believe that the first step to doing so is to listen attentively to customer opinions and requests, and to do everything possible to eliminate sources of inconvenience. Heeding customer opinions, we are working to implement improvements proposed by our sales representatives on the front lines, and continually striving to improve services.

Sales representatives at nationwide branches, sales offices, Life Plazas and call centers (Tokyo, Osaka) respond on the spot to individual customer opinions. Matters requiring a Company-wide response are submitted to headquarters, and a response is then evaluated and implemented.

We also hold Nissay Konwakai every year at all branches throughout Japan, which are attended by the members of the Meeting of Representatives and directors, in further efforts to gather a broad sampling of customer opinions and requests.

We are also focused on making notices, pamphlets and other materials that are easy for customers to understand. We hold Customer Monitor Meetings and meetings of the External Advisory Board for Life Insurance Application Forms, attended by outside experts from whom we receive opinions about materials from a customer perspective.

Nippon Life began conducting an annual customer satisfaction survey in 2002. Various meetings composed of directors and general managers from each department consider and deliberate upon customer opinions categorized following the survey, and Nippon Life makes every effort to reflect these opinions in its business activities. In fiscal 2005, Nippon Life implemented 247 such improvement measures based on customer opinions, concerning its administrations and services.



\* Figures represent the number of opinions from customers

## Efforts to Elicit Customer Opinions

### ■ Improvement Measures Based upon Customer Opinions

#### • Consolidating Opinions at Branches, Sales Offices and Life Plazas

Customer opinions and requests are received at service counters or by telephone at nationwide branches, sales offices, Life Plazas and other means. These are entered on a customer opinion sheet, and issues from among them that require improvements are collected and categorized. These issues are examined at monthly branch and other meetings. Issues that can be quickly improved upon are addressed on the front lines of sales operations, while issues that require improvements throughout the entire Company, such as with system development or revision of materials, are communicated to headquarters as improvement proposals.

#### • Efforts at Call Centers, Head Offices and Headquarters

Head offices and headquarters work in unity with sales representatives on the front lines to respond rapidly to customer opinions and requests received by telephone or in writing at call centers, head offices and departments at headquarters. Issues noticed by employees at the head offices and headquarters during their responses to customers are gathered as improvement proposals, and taken up in respective departments in an effort to enhance business operations and services.

### ■ Nissay Konwakai (see p.50)

Nissay Konwakai are roundtable conferences that have been held annually since 1975 as forums to explain Nippon Life business activities to policyholders throughout Japan, and to receive opinions and inquiries regarding overall management, products and services. In fiscal 2005, Nissay Konwakai were held in 110 locations around Japan, with total attendance of 2,431 (up 51 from a year earlier) including 89 members of the Meeting of Representatives and 2,342 policyholders and others. A total of 4,525 (up 206 from a year earlier) opinions and requests were submitted. We are working to reflect these opinions and requests in business operations.

### ■ Customer Monitor Meeting

In order to directly receive opinions from outside experts, as well as obtain proposals from them regarding the condition of customer needs and improvement measures regarding overall customer service activities, and to use these opinions and proposals in future improvement measures, Nippon Life began hosting Customer Monitor Meetings in 2000.

We have currently commissioned 10 monitors in both Tokyo and Osaka who have corporate or academic experience in the field of consumer relations, and these monitors hold meetings four times per year (two times each in Tokyo and Osaka).

We have received opinions regarding our customer satisfaction surveys (see p.10), customer notices, disclosure reports, TV commercials and official website, and are utilizing these to make concrete improvements.

### ■ Meetings of the External Advisory Board for Life Insurance Application Forms

Nippon Life has been holding meetings of the External Advisory Board for Life Insurance Application Forms since fiscal 2001. These are held in order to receive opinions regarding customer materials such as policies and procedural forms from a customer perspective, with the goal of creating materials that are easy for customers to understand.

Nippon Life has commissioned external advisory specialists for consumer affairs as advisors, with eight advisors in Tokyo and five advisors in Osaka. These advisors hold six meetings annually (one in Tokyo and five in Osaka). In fiscal 2005, Nippon Life received their opinions regarding *Iryo Meijin EX* prospectuses and pamphlets, notices sent at the time of policy enrollment, application forms and other materials. We are working to make improvements to these materials.

#### Improvement proposals from customer opinions (fiscal 2005)

(Unit: cases)

	Improvement proposals	
		Increase
Branches, Sales offices	13,784	2,916
Life Plazas	6,240	3,059
Call centers	2,126	456
Head offices, Headquarters	9,168	(107)
<b>Total</b>	<b>31,318</b>	<b>6,324</b>

## ■ Customer Satisfaction Survey

Nippon Life has commissioned outside institutes to conduct annual surveys since fiscal 2002 in order to obtain appraisals and opinions of its products and services, and to promote initiatives aimed at further improving customer satisfaction and administration.

Results of the survey are analyzed by departments responsible for related areas, and are widely utilized during the development of new products and the revamping of services.

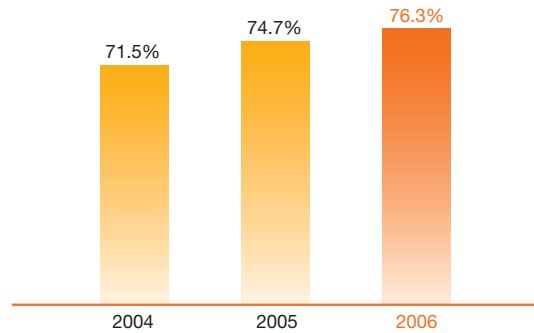
In addition to reporting survey results to internal committees, executive meetings, Meetings of Representatives and Board of Trustee Meetings, we also receive opinions regarding the results at Customer Monitor Meetings. (See p.9).

### Survey Overview

- Once per year, every September
- Usable answers received from approximately 10,000 policyholders
- Questions cover 150 items in 28 categories such as
  - Responsiveness of sales representative
  - Currently held policies
  - Application procedures for new contracts
  - Procedures for continuing contracts
  - Content of notifications and pamphlets
  - Reliability of Nippon Life
- The options “satisfied,” “partially satisfied,” “partially dissatisfied,” and “dissatisfied” are given concerning the level of customer satisfaction

### Overall Customer Satisfaction as Measured by the Customer Satisfaction Survey

\*Percent of customers who answered “satisfied” or “partially satisfied”



## Efforts to Reflect Customer Opinions in Business Activities and Examples of Improvements

Nippon Life believes that each and every customer opinion and request is an important hint about how to improve services, and keeps a record on customer opinion sheets. Issues that arise concerning operations are examined at “Consistent protection. Superior services.” promotion meetings held monthly at branches around Japan, and then consolidated at Headquarters. After these have been deliberated upon by departments responsible for those areas, directors and department representatives at monthly Customer Service General Manager Meetings and at quarterly “Consistent protection. Superior services.” promotion meetings investigate action countermeasures. The status of customer opinions is also reported to the Board of Directors and Board of Managing Directors.

Business improvements based upon customer opinions during fiscal 2005 totaled 247, bringing the seven-year cumulative total since fiscal 1998 to 968.

The next sections introduce prime examples of improvements made based upon customer opinions during fiscal 2005.

## ■ Examples of Improvements Based on Customer Opinions

### ● Greater Convenience for Customers

**“I would like for there to be a branch where it is easy to stop by.”**

Nippon Life opened Life Square Umeda, a small branch office in the underground shopping area near Osaka Station and Umeda Station. The branch offers a variety of information relevant to daily life, as well as consulting and other services. (From October 2005)



**“I want to be able to make inquiries using my mobile phone for free.”**

Customers may now call the Nissay Call Center free of charge from their mobile phones and PHS devices. (From March 2006)



### ● Improved Provision of Information to Customers

**“I would like to have more medical and health-related information.”**

Nippon Life now publishes the magazine “SALUTE” that contains medical and health-related information. Sales representatives hand out copies of SALUTE when visiting customers. (From March 2006)



**“I would like to see some data regarding insurance put together in a booklet.”**

Nippon Life produced “Nissay Data 2006,” a booklet containing diverse data to enable customers to understand the amount of insurance coverage needed at different times of their lifecycle. (From March 2006)



**“I would like to have materials about policy content that are easier to understand.”**

Nippon Life now publishes “Consistent protection. Superior services.” information, which explains policy content and free services in an easy-to-understand format. (From March 2006)



**“I would like to have some materials that show a comparison of various types of insurance.”**

Nippon Life has produced an “Asset Formation Product Comparative Prospectus,” which compares an array of Nippon Life insurance types, enabling customers to easily understand the products they are purchasing. (From March 2006)



### ● New Product Development

**“I wish there were a broader lineup of medical and nursing care products.”**

In addition to insurance coverage against hospitalization and surgery, Nippon Life also launched its *Iryo Meijin EX* medical coverage for customers 50 years of age and over for provision against serious conditions including the three dread diseases, lifestyle related diseases, organ transplants and other diseases. (From September 2005)



### ● Expansion of Easy-to-Understand Administration and Services

In fiscal 2005, Nippon Life worked to: Improve the layout of application forms and procedural forms (123 items), Revise notifications and booklets (46 items) and Make policies and pamphlets easier to understand (24 items).

In addition, we revised internal documents and manuals, and worked to improve system responsiveness, and other administrative procedures and services encompassing a total of 247 improvement items.

**“Specialized terms in contract clauses are difficult to understand.”**

Difficult legal, medical and other terms in contract clauses have been revised to make them easier to understand, including the addition of phonetic spellings beside difficult Japanese terms, and explanatory notes for specialized terms. (From March 2006)

**“I would like to have easy-to-understand information about serious disability claim procedures and conditions that qualify for payments.”**

Nippon Life created new guidance materials that make it simpler for customers to understand serious disability claim procedures and conditions that qualify for payments. (From March 2005)

**“I wish the forms were easier to fill out.”**

The forms actually used have been made to more closely resemble example forms. Diagrams have been included, and the overall procedure for forms has been reviewed. (From March 2006)

**“I would like someone to explain the content of riders to me.”**

New functions have been added to the portable PC terminals of sales representatives (“Duo”), helping customers to understand content of riders more easily through image and voice explanations. (From October 2005)

### ● Efforts to Enhance Corporate Image

**“I would like Nissay to make some TV commercials that leave a lasting company impression.”**

Our recent TV commercials include themes such as “for the ones you love,” represented in different versions: “At a train ticket gate” “Safe!! (At a baseball game)” and “Pillar of strength.” The commercials show Nippon Life’s passion to remain a leader in the life insurance business. (From April 2005)



**“I believe Nippon Life should do more to publicize its social and public activities.”**

Nippon Life has produced a booklet that presents its social contribution activities. We have also produced a TV commercial about the “Nissay Planting and Nurturing Forests for Future Generations” campaign, which is being widely broadcast. (From March 2006)



## Summary of Results and Achievements in Fiscal 2005 (p. 13–18)

### Summary of Performance (See p. 13–15 for details)

#### ■ Individual Market Sales

- New policies for the individual market saw a year-on-year increase of 6.3% based on insurance premiums and an increase of 4.9% in the number of new policies. The amount of death protection, however, declined 15.4% year on year.
- Nippon Life expanded its lineup of *Ikiru Chikara EX* policies, offering new death protection advantage plan, medical coverage advantage plan and balanced plans. In addition, we introduced new *Iryo Meijin EX* medical life insurance policies in September 2005 for customers 50 years of age and over, selling 64,000 policies in a six-month period. With 79,000 new policies being reached, sales of single-premium products with high savings components increased approximately 20% compared with the previous fiscal year, partially due to a rise in assumed interest rates in February 2006.
- Policies in force as of March 31, 2006 decreased year on year by 4.6% in terms of the amount of death protection, with declines of 0.8% in terms of insurance premiums and 2.3% in the number of policies. Establishing an earnings structure through a recovery in policies in force remained a key issue.

#### ■ Corporate Market Sales

- The amount of group insurance policies in force rose 2.0% compared with the previous fiscal year, in spite of contraction in the overall market.
- The value of group annuities in force remained at approximately the same level as the previous fiscal year, with increases in investment returns and other factors offsetting the impact remaining from the return of employees' pension funds that had been managed for the government (*Daiko Henjo*).
- As a defined contribution pension investment and management organization, Nippon Life concluded 98 new agreements, bringing the total to 291 and maintaining its leading performance among such organizations.
- In the field of non-life insurance, Nippon Life continued to promote sales of non-life insurance through sales representatives working as agents of Nissay Dowa General Insurance, and pressed ahead with efforts to jointly develop business in the corporate market with Nissay Dowa General Insurance.
- Nippon Life also implemented measures to expand overseas life insurance operations in the United States, China, the Philippines, and Thailand.

#### ■ Asset Management

- We continued activities aimed at enhancing profitability, including adjusting the composition of our domestic and foreign stock portfolio with a focus on growth potential and shareholder dividends, as well as accumulating foreign bonds at times when the value of the yen appreciated. Dividend income from domestic stocks reached a record ¥118.3 billion, leading to a year-on-year increase of 9.1% in interest, dividend and other income, and contributing significantly to growth in core operating profit.

#### ■ Underwriting and Benefit Settlement Examinations

- Nippon Life continued its efforts to train specialists responsible for assessment. At the same time, we implemented initiatives to strengthen our assessment systems in response to the growing complexity of assessments for benefit settlement. Through the initiatives of the Medical Information Department newly established at the end of the previous fiscal year, we worked to expand the scope of our underwriting, including a review of daily benefit standards for hospitalization riders.

#### ■ Customer Service

- Sales representatives on the front lines collaborate closely with headquarters to examine customer opinions and requests. In fiscal 2005, we implemented 247 improvement measures, including the creation of easier-to-understand customer notifications.

#### ■ Social and Public Activities

- Nippon Life implemented environmental initiatives based upon its ISO14001 certification, which was obtained four years ago. Through our "Nissay Planting and Nurturing Forests for Future Generations" campaign, we planted and nurtured trees in 20 locations around Japan as part of our forest preservation activities.
- In cultural activities, we presented approximately 200,000 children with invitations to Nissay Masterpiece Theater.

### Revenues and Expenditures (See p. 16 for details)

- Core operating profit, which indicates basic profitability conditions, increased 15.2% year on year to ¥633.6 billion. Operating income, which is core operating profit plus net capital gains/losses and extraordinary profits and losses, rose 24.2% to ¥443.7 billion.
- The surplus in the current year, which reflects operating income after such adjustments as extraordinary losses and income taxes, increased 17.4% year on year to ¥229.8 billion.

### Assets (See p. 17 for details)

- Total assets as of March 31, 2006 increased ¥3,983.1 billion from a year earlier to ¥50,542.5 billion.
- The foundation funds (*kikin*) and reserves for unexpected risks totaled ¥3,179.1 billion, exceeding our target of ¥3 trillion. Primary

factors included an additional offering of ¥150.0 billion in foundation funds, as well as accumulations of ¥154.6 billion in contingency reserves and ¥51.0 billion in reserve for price fluctuations.

## Summary of Performance

The Japanese economy in the fiscal year ended March 31, 2006 underwent a modest recovery on the back of improved corporate earnings and increases in capital investment. The momentum, however, did not sufficiently carry over to the household sector in areas such as personal consumption.

The life insurance industry emerged from a period of severe operating conditions and exhibited signs of an upturn through the rise of stock prices and the management efforts of companies in the industry. On the other hand, consumer confidence toward the life insurance business was shaken as a result of incidents of improper non-payment of insurance benefits.

Against this backdrop, Nippon Life got off to a fresh start under a new management team, working to recover insurance results, strengthen profitability, and bolster its business foundation. At the same time, Nippon Life made further progress with efforts to ensure thorough legal compliance, including the protection of personal information, and to reflect in its business the opinions of customers and sales representatives on the front lines of sales operations. In addition,

we continued with endeavors to improve our systems for payment of insurance claims and benefits, establishing a new Claims Examination Management Office.

During the fiscal year under review, Nippon Life saw signs of recovery in its insurance results, achieving increases in annualized premiums on new policies and number of policies sold, as well as improvements in the decrease of policies in force. The number of policies in force did continue to decline, however, leaving issues to be faced. In terms of earnings and financial soundness, core operating profit rose and Nippon Life steadily accumulated foundation funds (kikin) and reserves\*, achieving its goal of ¥3 trillion and strengthening its financial foundation. With the reinforced financial foundation supporting an improvement in profitability, Nippon Life plans to expand dividend returns to customers.

Main initiatives and results in each sector were as follows.

\*Foundation funds and reserves refers to the foundation funds (kikin), which represents the capital of a mutual company, together with contingency reserves and reserve for price fluctuations accumulated to respond to various risks.

### ■ Individual Market Sales

On the product front, we expanded our lineup of *Ikiru Chikara EX* policies, offering new death protection advantage plan, medical coverage advantage plan and balanced plans. In response to rising medical coverage needs among middle-aged customers, we introduced new *Iryo Meijin EX* medical life insurance policies in September 2005 for customers 50 years of age and over, selling 64,000 policies in a six-month period. With a close watch on investment conditions such as the movement of market interest rates, we raised assumed interest rates on single-premium products in February 2006, which spurred sales of 79,000 of these products, an approximate 20% year-on-year increase.

Concerning our sales network, the number of sales representatives\* decreased by 479 year on year to 50,727 as of March 31, 2006. However, efforts to strengthen education and training of sales representatives, and thoroughgoing customer visitation initiatives led to greater customer satisfaction and an increase in the number of policies sold.

Nippon Life has been working to bolster life insurance agencies as one of its primary sales channels to complement the sales representative channel. The number of agencies increased by 561, bringing the year-end total to 6,925. We also strived to upgrade our insurance sales at banks, introducing an array of specialized products in response to the further lifting of restrictions on banks' handling of

insurance products in December 2005.

To meet a diversifying array of customer needs and lifestyles, we continued with initiatives to enhance the services of our customer service channels, including Life Plazas (customer service counters), branch service counters, and expanded calls and visits to customers outside of regular business hours, including on weekends.

As a result of these initiatives, annualized premiums on new policies increased 6.3% compared with the previous fiscal year, and the number of policies sold rose 4.9%. The value of new policies as of March 31, 2006, calculated as the total of such items as the death protection amount, declined 15.4%. This was due to a higher ratio of products with low or no death protection coverage as a proportion of the total number of products sold. These included products within the three new *Ikiru Chikara EX* plans, including medical coverage advantage plans with relatively low death protection amounts and the *Iryo Meijin EX* policy, which has no death protection attached, as well as individual annuities and other products.

Though the decline in value of policies in force as measured by the total death protection amount improved 7.9% year on year, the decline still exceeded the value of new policies.

\*The number of registered sales representatives does not include sales management and part-time sales staff.

### Performance of Individual Insurance and Individual Annuities

(Unit: Billions of Yen, %)

As of March 31		2006	Rate of increase	2005	2004
	Amount of new policies	¥15,347.8	(15.4)%	¥18,151.3	¥19,468.1
Total of individual insurance and individual annuities	Decrease in amount of policies	27,688.1	(7.9)	30,058.3	35,826.9
	Annualized premiums on new policies	272.6	6.3	256.4	250.7
	Number of policies sold (thousands)	1,340	4.9	1,270	1,390

Notes: 1. Value of new policies and annualized premiums on new policies includes net increase due to conversions.

2. Number of policies sold represents the total of new policies and policies after conversions.

3. Amounts for new policies and decrease in policies represent the total sum of: individual insurance coverage amount, individual annuity resources amount (in the case of policies prior to the start of annuity payments, amount of future annuity payments is translated to value at the start of annuity payments) and policy reserves total amount (in the case of policies after the start of annuity payments, amount of reserves accumulated for future payments of annuities and others.)

4. Annualized premiums, the amount for an entire year, are calculated using coefficients based on the premium payment method. (The premium divided by the coverage period is used for single payments.)

As a result of the aforementioned, the amount of policies in force as of March 31, 2006, as measured by the total of such items as death protection amount, decreased 4.6% compared with a year earlier. Annualized premiums for policies in force edged down 0.8% year on

year, while the number of policies in force slipped 2.3%. Nippon Life will continue efforts to firm up its revenue structure through a recovery in policies in force.

### Performance of Individual Insurance and Individual Annuities

As of March 31		(Unit: Billions of Yen, %)			
		2006	Rate of increase	2005	2004
Total of individual insurance and individual annuities	Amount of policies in force	¥254,073.2	(4.6)%	¥266,413.5	¥278,320.5
	Annualized premiums for policies in force	3,302.2	(0.8)	3,330.4	3,386.7
	Number of policies in force (thousands)	15,950	(2.3)	16,340	16,860

### ■ Corporate Market Sales

Amid the diversifying range of corporate benefit plans and the continuing transition to new corporate retirement allowance and annuity systems, Nippon Life promotes an array of precise consulting services and proposals.

In the field of group insurance, the entire Company worked to expand sales to regional public organizations. In response to diversifying corporate and employee needs, Nippon Life developed dread disease term riders for group credit life insurance and other products. Group insurance policies in force increased 2.0% year on year in spite of contraction in the overall market.

In the field of group annuities, we worked to provide better education and information to employees about defined contribution pensions, and entered the small and medium-size enterprise market by offering comprehensive plans. These efforts were focused on the entrustment of management institutions that play a central role in systems administration. The amount of group annuities remained largely unchanged from a year earlier, with increases in investment

returns offsetting remaining impact from the return of employees' pension funds that had been managed for the government (*Daiko Henjo*). Annuity assets managed by the Nippon Life Group, including Nissay Asset Management Corporation ("Nissay Asset"), edged down 0.9%\* from a year earlier due to impact from policy cancellations by large organizations. As a defined contribution pension investment and management organization, Nippon Life obtained 98 new agreements, bringing the total to 291 agreements and reinforcing its leading position among such organizations.

We also strengthened efforts to expand into new fields by enhancing collaboration between sales representatives and corporate marketing managers.

\*From the fiscal year ended March 31, 2006, fair value figures are used for the balance of managed annuity assets of Nissay Asset. Accordingly, rate of increase figures are calculated using the fair value for Nippon Life's balance of managed annuity assets as of March 31, 2005.

### Year-End Value of Group Insurance and Group Annuity Policies

As of March 31		(Unit: Billions of Yen, %)			
		2006	Rate of increase	2005	2004
Total group insurance (Coverage amount)		¥83,518.7	2.0%	¥81,864.6	¥80,415.3
	General welfare group term life insurance	24,122.8	3.2	23,374.9	22,826.8
	Optional group term life insurance	23,448.8	1.0	23,211.5	23,165.3
	Group credit insurance	35,897.9	1.9	35,228.3	34,372.7
Group annuities (Policy reserves amount)		8,800.0	0.0	8,797.1	9,425.5
	Separate account	1,868.9	7.9	1,731.5	1,923.3

Notes: 1. Value of new group insurance policies (increase in premiums and the net increase in premiums from midterm enrollment and withdrawals) for the fiscal year ended March 31, 2006 was up 44.9% to ¥10,511.9 billion, and the decrease in value of policies rose 52.6% to ¥8,857.7 billion.  
2. Policy reserves are provisions accumulated for the payment of future annuities and benefits.

### ● Non-Life Insurance Field & Overseas Operations

In the field of non-life insurance, Nippon Life continued to promote sales of non-life insurance through sales representatives working as agents of Nissay Dowa General Insurance, and pressed ahead with efforts to jointly develop business in the corporate market with Nissay Dowa General Insurance. We also received non-life insurance corporate marketing manager from Nissay Dowa General Insurance

and others in an effort to firm up our sales structure in this business.

Nippon Life also pressed ahead with measures to expand overseas life insurance operations in the United States, China, the Philippines, and Thailand. We will work to accelerate the growth of this business platform, as the overall scale and revenue contributions of this business have not yet achieved sufficient levels.

### Performance at Nissay Dowa General Insurance Company, Limited

As of March 31		(Unit: Billions of Yen, %)			
		2006	Rate of increase	2005	2004
Net premiums (Coverage amount)		¥321.7	(0.0)%	¥321.8	¥322.3

## ■ Asset Management Field

In the general account, along with accumulating public and corporate bonds expected to provide stable interest income as investment assets, we pushed forward with efforts to improve profitability. We adjusted the composition of our portfolio of domestic stocks with a focus on stocks with growth potential and the ability to provide stockholder returns such as dividends in the mid- to long-term. In foreign securities, while maintaining an awareness of risks related to fluctuating exchange rates, we purchased more foreign bonds in the first half of the year due to the appreciation of the yen. We also invested in securities backed by housing loans as the core focus of our investments in domestic asset-backed securities, which yield relatively high returns.

As a result of these endeavors, interest, dividend and other income climbed 9.1% over the previous fiscal year, with dividend income from domestic stocks reaching a record ¥118.3 billion.

### Main Asset Management-Related Revenues and Expenditures

(Unit: Billions of Yen, %)				
Fiscal years ended March 31	2006	Rate of increase	2005	2004
Investment income	¥1,677.7	30.2%	¥1,288.3	¥1,545.0
Interest, dividend and other income	1,070.0	9.1	980.4	980.0
Gains on the sales of securities	174.2	(13.6)	201.7	188.7
Gains from separate account	388.0	351.6	85.9	348.4
Investment expenses	291.7	38.4	210.8	188.5
Losses on sales of securities	114.7	117.2	52.8	57.2
Losses on valuation of securities	8.8	(71.6)	31.1	23.3
Net proceeds from investments	1,386.0	28.6	1,077.5	1,356.5
Proceeds from investments in the general account	998.0	0.6	991.6	1,008.1

Note: Net investment income/expenses for the separate account is shown as net amount of gains from separate account and losses from separate account.

### Investment Return (General Account)

(Unit: %)			
Fiscal years ended March 31	2006	2005	2004
Investment return	2.37%	2.42%	2.48%

Note: Investment return is calculated as follows:

$$\frac{\text{Investment income minus investment expenses, plus valuation gains (under Insurance Business Law Article 112)}}{\text{Average daily asset balance for the year (calculated using the daily average balance method)}}$$

## ■ Underwriting and Benefit Settlement Examination

While promoting the training of specialists responsible for underwriting and benefit settlement assessment, Nippon Life worked to strengthen its assessment systems to respond to the increase in the growing number and greater complexity of assessments for payments, which is due to the greater variety of products. At the Medical Information Department, which was newly established at the end of the previous fiscal year, we conducted analysis of accumulated mortality and medical data, as well as studies on medical technology including rapidly advancing surgical and testing techniques. Such endeavors led us to reexamine daily benefit standards on hospitalization riders, expand the scope of underwriting, and develop *Iryo Meijin EX* policies with expanded coverage for eligible surgeries and serious diseases.

## ■ Customer Service

Aiming to improve customer satisfaction, we are redoubling our system for ensuring that management reflects the opinions of customers and sales representatives on the front lines. In addition to taking up improvement proposals based upon customer opinions, sales representatives from the front lines and headquarters are banding together to formulate improvement measures with the aim of implementing customer proposals. During the fiscal year under review, we implemented 247 improvement measures, including the

Unrealized gains on domestic stocks nearly doubled from ¥2,967.0 billion a year earlier to ¥5,837.7 billion as of March 31, 2006, which is equivalent to 1.2 times of the book value (¥4,070.0 billion).

In the separate account, higher stock prices led to ¥388.0 billion in proceeds from investments, which were recorded as gains from separate account.

As a result, net proceeds from investments, which represent investment income less expenses for investment, totaled ¥1,386.0 billion, an increase of 28.6% over the previous fiscal year.

Net proceeds from investments in the general account edged up 0.6% to ¥998.0 billion, for a return on investment of 2.37% (2.42% in the previous fiscal year). In addition, return on investment for the first treaty comprehensive account (separate account for group annuities), which makes up a large portion of separate account investment assets, was 21.08% (4.44% in the previous fiscal year).

### First Treaty Comprehensive Account (Separate Account for Group Annuities)

(Unit: %)			
Fiscal years ended March 31	2006	2005	2004
Investment return	21.08%	4.44%	17.25%
(Reference)	Average performance for past three years 14.03%	Average performance for past five years 4.63%	Average performance for past seven years 3.42%

creation of easier-to-understand customer notifications. In June 2005, we obtained ISO9001 certification, the international standard for quality assurance management, for creation of product explanation materials.

## ■ Social and Public Activities

In addition to the activities in the above areas, Nippon Life also took the following measures.

We continued our progress in environmental protection activities based upon ISO14001 certification, which we obtained four years ago. We also pressed ahead with forest preservation activities through the “Nissay Planting and Nurturing Forests for Future Generations” campaign, planting and nurturing trees in 20 locations throughout Japan during fiscal 2005. Since fiscal 1992, we have planted approximately 1.13 million trees at 167 locations throughout Japan.

In the area of cultural activities, during the year we invited approximately 200,000 children to the Nissay Masterpiece Theater, which raised the total number of children that have participated in the program since 1964 to around 6.44 million, continuing our persistent efforts.

## Revenues and Expenditures

### ■ Operating Income

Total revenues were ¥6,839.4 billion, a year-on-year increase of 6.9% (1). Revenues came mainly from income from insurance and reinsurance premiums, which edged up 0.3% to ¥4,842.2 billion, and from investment income, which climbed 30.2% to ¥1,677.7 billion.

Total expenditures were ¥6,395.6 billion, a year-on-year increase of 5.9% (2). The main sources of expenses were insurance claims and other payments, which dropped 4.4% to ¥4,442.3 billion, provision for policy reserves and others, which jumped 244.0% to ¥662.8 billion, and operating expenses, which declined 1.6% to ¥536.3 billion.

As a result, operating income was ¥443.7 billion, a year-on-year increase of 24.2% (3).

Core operating profit, which indicates operating income minus net capital gains/losses and extraordinary gains/losses, was ¥633.6 billion, a rise of 15.2%. (Please refer to p.6).

### ■ Extraordinary Profits and Losses

Extraordinary profits totaled ¥1.3 billion, down 96.7% year on year, and extraordinary losses were ¥166.3 billion, down 10.9% year on year, due to the recording of ¥77.8 billion in losses in accordance with the application of accounting standards related to impairment of fixed assets, and due to ¥51.0 billion in provision for reserve for price fluctuations of investments in securities (4).

### ■ Surplus in the Current Year

The surplus in the current year, which reflects operating income after such adjustments as extraordinary profits and losses, and income taxes, was ¥229.8 billion, an increase of 17.4% year on year (5).

#### Transfers to Reserve for Dividends to Policyholders

The minimum percentage of the surplus for distribution that is transferred to the reserve for dividends to policyholders (calculation method is given on the right) is stipulated in the Company's Articles of Association.

Applying Article 29 of the Enforcement Ordinance of the Insurance Business Law, Nippon Life has set the minimum amount in the Articles of Association to 20.0%. In fiscal 2005, 100.6% of the surplus for distribution was transferred. The reason that the ratio is over 100% is that, based upon provisions of Article 27 of the Enforcement Regulation of the Insurance Business Law, "Year-end surplus for distribution increased by fair value" was deducted from the denominator of the transfer ratio.

#### Fiscal 2005 Unappropriated Surplus

$$\frac{\text{The reserves for dividends to policyholder (c)}}{\text{Unappropriated surplus}} \times 100 = 100.6\%$$

$$[\text{b} - (\text{a} + \text{d} + \text{e} + \text{f}) + \text{Year-end surplus for distribution increased by fair value (¥2.4 billion)}]$$

### Main Items in Statements of Operations

(Unit: Billions of Yen)

Fiscal years ended March 31	2006	2005	2004
<b>TOTAL INCOME</b>			
+ Total revenues (1)	¥6,839.4	¥6,398.0	¥7,101.9
Income from insurance and reinsurance premiums	4,842.2	4,829.7	5,142.8
Investment income	1,677.7	1,288.3	1,545.0
Interest, dividend, and other income	1,070.0	980.4	980.0
Gains on the sales of securities	174.2	201.7	188.7
Gains from separate accounts, net	388.0	85.9	348.4
Other revenues	319.4	279.8	413.9
— Total expenditures (2)	6,395.6	6,040.5	6,735.7
Insurance claims and other payments	4,442.3	4,647.8	5,422.8
Provision for policy reserves and others	662.8	192.6	72.5
Provision for policy reserves	623.8	151.6	29.1
Expenses for investment	291.7	210.8	188.5
Losses on sales of securities	114.7	52.8	57.2
Losses on valuation of securities	8.8	31.1	23.3
Operating expenses	536.3	545.2	558.9
Other expenditures	462.4	444.0	492.7
= Operating income (3)	443.7	357.4	366.1
<b>EXTRAORDINARY PROFITS AND LOSSES</b>			
+ Extraordinary profits (4)	1.3	42.0	23.1
Reversal of allowance for doubtful accounts	—	37.3	16.5
— Extraordinary losses (4)	166.3	186.7	136.6
Losses on disposal of assets	36.0	47.6	23.0
Impairment losses	77.8	—	—
Provision for reserve for price fluctuations of investments in securities	51.0	135.0	105.0
Losses on valuation of real estate	—	2.4	1.6
= Extraordinary profits (losses)	(164.9)	(144.7)	(113.5)
= Surplus before income taxes	278.8	212.6	252.6
— Income taxes, current	142.9	124.0	140.0
— Deferred income taxes	(93.9)	(107.1)	(74.9)
= Surplus in the current year (5)	229.8	195.7	187.4
+ Reversal of revaluation reserve for land	5.7	6.7	3.6
+ Reversal of reserve for assisting social public welfare a	1.2	1.5	2.7
= Unappropriated surplus	236.8	203.9	193.8

### Resolutions on Distribution of Surplus

(Unit: Billions of Yen)

Fiscal years ended March 31	2006	2005	2004
<b>UNAPPROPRIATED SURPLUS</b>			
UNAPPROPRIATED SURPLUS b	¥236.8	¥203.9	¥193.8
Reversal of voluntary reserves	0.8	4.5	0.7
Reversal of reserves for condensed booking of real estate for tax purpose	0.8	0.7	0.7
Reversal of special account reserve for condensed booking of real estate for tax purpose	—	3.7	—
Surplus for distribution	237.6	208.4	194.6
Reserve for dividends to policyholders c	179.9	146.9	135.1
Net surplus after deduction	57.7	61.4	59.4
Legal reserve for deficiency funds d	0.7	0.6	0.5
Reserve for redemption of foundation funds e	50.0	50.0	50.0
Foundation funds interest f	3.6	2.8	3.6
Voluntary surplus reserve	3.4	7.9	5.2
Reserve for assisting social public welfare	1.5	1.5	1.5
Reserve for condensed booking of real estate for tax purpose	—	6.4	—
Special account reserve for condensed booking of real estate for tax purpose	1.9	—	3.7

## Balance Sheets

### ■ Assets

Total assets at the end of the year were ¥50,542.5 billion (3), an increase of ¥3,983.1 billion from a year earlier, primarily as a result of increases in the fair value of investment securities. General account assets were ¥48,208.0 billion, an increase of ¥3,797.7 billion from a year earlier (1); and separate account assets totaled ¥2,334.5 billion, an increase of ¥185.3 billion from a year earlier (2).

The following were the main balance sheet items.

#### Main Balance Sheet Items

(Unit: Billions of Yen)			
As of March 31	2006	2005	2004
<b>ASSETS</b>			
Cash and deposits	¥ 915.0	¥ 364.0	¥ 233.8
Call loans	553.7	363.1	437.4
Monetary receivables purchased	1,391.6	1,456.6	901.9
Trading securities	2.0	2.9	2.9
Money held in trust	177.0	144.6	155.0
Investments in securities	35,283.4	31,331.8	29,999.6
Domestic bonds	16,426.5	16,078.7	15,069.3
Domestic stocks	11,250.7	8,176.6	7,943.3
Foreign securities	7,039.7	6,372.1	6,186.8
Loans receivable	9,999.1	10,317.2	11,011.5
Policy loans	1,263.4	1,325.8	1,371.7
Industrial and consumer loans	8,735.7	8,991.3	9,639.8
Real estate and movables, net of accumulated depreciation	1,708.5	1,800.7	1,838.7
Reinsurance receivable	0.4	0.4	0.4
Other assets	549.4	824.2	773.2
Customers' liabilities for acceptances and guarantees	2.0	—	0.7
Allowance for doubtful accounts	(39.9)	(46.5)	(84.8)
[General account]	(1) [48,208.0]	[44,410.2]	[42,994.3]
[Separate account]	(2) [2,334.5]	[2,149.1]	[2,276.4]
<b>Total assets</b>	<b>(3) ¥ 50,542.5</b>	<b>¥ 46,559.4</b>	<b>¥ 45,270.7</b>

Note: Total separate account assets consist of the assets in separate account for individual variable insurance, separate account for individual variable annuities, separate account for group annuities, and separate account for defined contribution pension.

### ■ Liabilities and Capital

Policy reserves as of March 31, 2006 totaled ¥39,418.1 billion, a ¥623.8 billion increase from a year earlier (4).

Total foundation funds (including reserve for redemption of foundation funds) were ¥900.0 billion, due to an additional offering of ¥150 billion in August 2005. In the foundation funds, of the portion offered in fiscal 2000, ¥50.0 billion was amortized as initially planned. As a result, reserve for redemption of foundation funds was ¥600.0 billion (5).

Net unrealized gains on securities, net of taxes, were ¥4,110.7 billion, an increase of ¥1,974.9 billion from a year earlier (6).

(Unit: Billions of Yen)			
As of March 31	2006	2005	2004
<b>LIABILITIES</b>			
Policy reserves	¥40,957.4	¥40,391.0	¥40,304.0
Reserve for outstanding claims	227.2	239.2	245.7
Policy reserves	(4) 39,418.1	38,794.3	38,642.6
Reserve for dividends to policyholders	1,312.0	1,357.4	1,415.6
Reinsurance payables	0.4	0.4	0.4
Other liabilities	1,900.2	1,731.4	927.8
Accrued bonus for directors and corporate auditors	0.1	—	—
Accrued severance indemnities	410.8	392.9	451.6
Accrued losses from supporting closely related companies	0.6	0.6	0.7
Reserve for price fluctuations of investments in securities	441.2	390.2	255.2
Deferred tax liabilities	1,380.0	354.9	305.5
Deferred tax liabilities for revaluation reserve for land	181.5	34.9	38.7
Acceptances and guarantees	2.0	—	0.7
<b>Total liabilities</b>	<b>45,274.6</b>	<b>43,296.7</b>	<b>42,285.0</b>
<b>CAPITAL</b>			
Foundation funds	300.0	200.0	250.0
Reserve for redemption of foundation funds	(5) 600.0	550.0	500.0
Reserve for revaluation	0.6	0.6	0.6
Surplus	350.1	314.4	300.7
Legal reserve for deficiency	7.4	6.7	6.1
Voluntary surplus reserve	105.9	103.7	100.6
Unappropriated surplus	236.8	203.9	193.8
Revaluation reserve for land, net of taxes	(93.6)	61.8	68.6
Net unrealized gains on securities, net of taxes	(6) 4,110.7	2,135.7	1,865.7
<b>Total capital</b>	<b>5,267.9</b>	<b>3,262.7</b>	<b>2,985.7</b>
<b>Total liabilities and capital</b>	<b>¥50,542.5</b>	<b>¥46,559.4</b>	<b>¥45,270.7</b>

## ■ Indicators of Soundness

The foundation funds (kikin) and reserves for unexpected risks totaled ¥3,179.1 billion as of March 31, 2006, an increase of ¥344.4 billion from a year earlier, attaining the targeted level of ¥3 trillion.

Nippon Life's solvency margin ratio increased 282.7 percentage points, and real net assets were ¥10,663.0 billion, an increase of ¥3,108.3 billion from a year earlier.

Non-performing assets (assets classified as requiring special attention or lower), totaled ¥76.5 billion (up ¥2.8 billion from the previous term), which is 0.58% (0.59%\* in fiscal 2004) of total assets.

\*From the year under review, the ratio is calculated in accordance with revisions to the Enforcement Regulation on the Insurance Business Law, and includes bonds via bond loan transactions with attached cash collateral.

### Forward-Looking Efforts to Raise Management Efficiency

Nippon Life has worked aggressively to improve management efficiency. While continuing to promote greater management efficiency and reforms, we will strive vigorously to enhance profitability, soundness, and dividend discounts to customers through progress with concentrated investment to management issues.

#### ■ Efforts to Reduce Expenses

Operating expenses in the fiscal year ended March 31, 2006 were ¥536.3 billion, a reduction of 40.8% since expenses peaked at ¥906.4 billion in fiscal 1992.

While continuing to promote greater efficiency in the area of fixed costs, we also aim to improve mid- to long-term business efficiency by conducting aggressive and focused investment activities to expand earnings and in response to various management issues.

Furthermore, we are moving forward with activities and education related to environmental issues such as reducing the use of paper, electricity, and water by becoming ISO14001 certified at our Osaka head office and Tokyo headquarters. All employees and executives participate in these efforts.

#### ■ Reducing Personnel Costs

By concentrating insurance policy administration at our headquarters and raising the efficiency of indirectly related work such as headquarters staff activity, we were able to reduce the number of non-sales personnel to 10,754 in fiscal 2005, a 23.2% reduction from the peak number in fiscal 1994.

With the aim of implementing an optimal underwriting and benefit settlement examination system, and from the perspective of medium-term training of employees, we also repositioned personnel, adding about 70 to the area of underwriting and benefit settlement examination at the beginning of fiscal 2006.

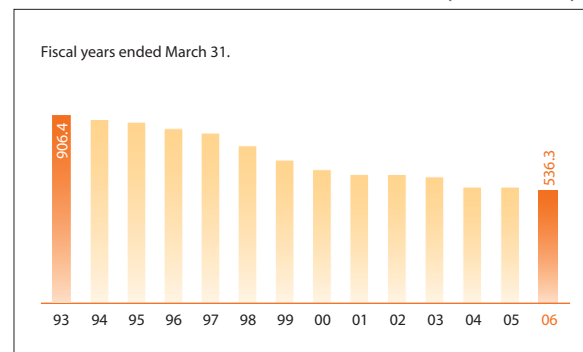
#### ■ Organizational Efforts

The Company is restructuring its sales system to reflect market size and raise efficiency. As a result of this ongoing effort, the number of branches was reduced to 117 by the beginning of fiscal 2006, a decrease of 19.9% from the peak of 146 in fiscal 1995.

Nippon Life will press ahead with efforts to construct an efficient organization that provides services that meet customer requirements and expectations.

### Trends in Operating Expenses

(Unit: Billions of Yen)



### Trends in Non-Sales Personnel

(Unit: Number)

