

Matters Pertaining to Non-Consolidated Settlement

I. Balance Sheet Terminology

■ Assets

1. Cash and deposits

Life insurance companies invest the funds earned as premiums in securities and loans, and they hold a part of their assets as cash and deposits to provide for insurance claims and other payments.

2. Call loans

Life insurance companies invest temporary cash surplus in call loans, which are short-term loans to other financial institutions.

3. Monetary receivables purchased

These are securities and other instruments not included in investments in securities. Specifically they include such instruments as commercial paper and beneficial interest in trust.

4. Proprietary trading securities

These are marketable securities held not for investment purposes, but for short-term trading and for selling to multiple, miscellaneous investors.

In the statements of operations, interest income and gains/losses on sales of and valuations on proprietary trading securities are aggregated and revenues are recorded as gains from proprietary trading securities, net of investment income; losses are recorded as losses from proprietary trading securities, net of expenses for investment.

5. Assets held in trust

Life insurance companies entrust money to trust banks to invest separately from the securities they hold.

In cases where the result of investment is revenue, it is recorded as gains from assets held in trust, net of investment income and, in case of loss, it is recorded as losses from assets held in trust, net of expenses for investment.

6. Loan receivables

❖ Policy loans

Policy loans include both loans to policyholders and premium loans automatically transferred in case policyholders fail to pay.

Based on applications from policyholders, loans to policyholders are made at an interest rate set by the Company in amounts within a fixed portion of cash-surrender value of the policy.

In cases where policyholders do not pay premiums during a payment grace period, premium loans are carried out in amounts corresponding to the premium with interest, within a fixed portion of cash-surrender value of the policy.

❖ General loans

These are loans other than policy loans. They include housing loans and various loans made to domestic and foreign corporations, countries and government organizations.

7. Tangible fixed assets

Tangible fixed assets, including land, buildings, construction in progress and movables.

❖ Construction in progress

Temporary account for expenditure of acquisition of real estate, used until delivery and debit to proper accounts such as land, buildings, etc.

8. Intangible fixed assets

Intangible fixed assets including software and land lease rights.

9. Reinsurance receivable

Life insurance companies pay premiums for reinsurance to other insurance companies to spread or allocate the risk of high-value policies they underwrite.

Reinsurance receivables are credits to reinsurance companies such as claims and premium refund of cancellation and lapse.

On the other hand, obligation to reinsurance companies such as premium payables are recorded as reinsurance payables.

10. Other assets

❖ Deposit for futures transaction

Margins deposited for transaction in financial futures and securities futures.

❖ Futures transactions margin account

These are the amounts paid or received when financial futures and securities futures are mark-to-market. When the amount paid is greater than the amount received, it is recorded under assets. When the amount received is greater than the amount paid, it is recorded under liabilities.

❖ Financial derivative instruments

The market value of futures, options and other derivative instruments is determined at the end of the fiscal year and if deemed to be settled, that value is posted as a credit or debt in the assets or liabilities account.

11. Deferred tax assets

The difference between deferred tax assets (temporary differences and tax losses carried forward expected to be recovered in the future accounting periods) and deferred tax liabilities (temporary differences expected to be assessed in the future accounting periods).

When deferred tax assets exceed deferred tax liabilities, the balance is recorded under assets as deferred tax assets. Conversely, when deferred tax liabilities exceed deferred tax assets, the balance is recorded under liabilities as deferred tax liabilities.

12. Customers' liabilities for acceptances and guarantees

See acceptances and guarantees in the liabilities section.

13. Allowance for doubtful accounts

This account is provided in advance for losses incurred from bankruptcy or other reasons of borrowers.

Life insurance companies prepare individual allowance for doubtful accounts and that for specific overseas credits other than general allowance for doubtful accounts estimated from past loss experiences.

■ Liabilities

1. Policy reserves and others

The Insurance Business Law requires insurance companies to provide policy reserves and others for claims and other payments.

❖ Reserve for outstanding claims

This reserve is for claims and other amounts payable at the end of the fiscal year, even though the reasons for such payments occurred in the previous term and payment is outstanding due to operational reasons.

❖ Policy reserve

Required by the Insurance Business Law, this reserve is for future insurance, annuity and benefit payments for policies during which no incidents occur.

❖ Reserve for dividends to policyholders

This is the reserve provided for insurance policy dividends.

2. Reinsurance payables

See reinsurance receivable in the assets section.

3. Other liabilities

❖ Financial derivative instruments

See financial derivative instruments in the assets section.

4. Accrued bonus for directors and corporate auditors

A reserve provided for the payment of executive bonuses.

5. Accrued severance indemnities

Allowance provided for future employee retirement (severance) and pension payments.

6. Accrued retirement benefits for directors

The reserve to be allotted for distribution to reserve for retirement benefits for directors.

7. Accrued loss from supporting closely related companies

This is provided for the loss estimated for restructuring and financial support to closely related companies in the future.

8. Reserve for price fluctuations in security investments

In accordance with the Insurance Business Law Article 115 paragraph 1, this reserve is provided to cover losses incurred from future decrease in prices of assets such as stocks whose value is likely to fluctuate.

9. Deferred tax liabilities

See deferred tax assets in the assets section.

10. Deferred tax liabilities for land revaluation reserve

This is the tax amounts corresponding to the temporary difference of tax accounting between book value and current market value of land applied for land revaluation.

11. Acceptances and guarantees

According to the Insurance Business Law, life insurance companies are allowed to engage in the credit guarantee business as an auxiliary business. Based on requests from customers, insurance companies provide third parties with guarantees of payment for loans taken out by customers. In the event customers fail to pay their debt, insurance companies have obligations to pay on behalf of their customers. In the event that insurance companies make payment, they have the right to seek payment (compensation, indemnity) from their customer, the original debtor.

Acceptances and guarantees represent the entire debt borne for the party receiving the guarantees as contingent liabilities.

In such cases, customers' liabilities for acceptances and guarantees are recorded under assets. This represents contingent obligations to the customers that the Company paid on behalf of.

■ Net Assets

1. Foundation Funds

According to Article 60 of the Insurance Business Law, foundation funds provide a means of financing and correspond to the capital of a joint stock company.

2. Reserve for redemption of foundation funds

As provided by Article 56 of the Insurance Business Law, if a mutual company redeems its foundation funds, the company is obliged to provide the reserve equivalent to the redeemed amount.

3. Reserve for revaluation

Article 102 of the Asset Revaluation Law enacted in 1950 provides for the establishment of a reserve for revaluation of assets such as stock, real estate and movables.

4. Surplus

❖ Legal reserve for deficiency

As provided by Article 58 of the Insurance Business Law, at the end of each fiscal year, insurance companies are obliged to reserve a portion of their surplus as deficiency reserve for future losses. This reserve must be accumulated to the amount equal to foundation funds 3/1000 of or greater than disbursement as a result of appropriation of surplus every fiscal year.

❖ Other surplus

❖ Contingency reserve

This account is provided for in an amount that exceeds accumulated contingent liabilities. The contingency reserve is one of the policy reserves and provides against the risk of insurable incidents occurring at a higher frequency than generally expected and the risk of investment returns being lower than the expected return ratio.

❖ Reserve for advanced depreciation and advanced depreciation in the separate account

This is a reserve for advance depreciation applied in replacement of specific assets accumulated through appropriation of surplus.

❖ Unappropriated surplus

Unappropriated surplus is included in other surplus, and, like a reserve, its calculation has not been established based on a resolution of the representative meeting.

5. Revaluation reserve for land

This is the amount calculated by subtracting deferred tax liability related to revaluation value from revaluation reserve for revaluation of land.

6. Net unrealized gains/losses on securities

The securities held by insurance companies are categorized by purpose of possession; other securities are those securities not included in trading securities, policy-reserve-matching bonds, held to maturity bonds, or investments in subsidiaries and affiliates. They are recorded on the balance sheets at market value. The amount recorded is equal to the difference between market value and book value, net of tax.

7. Gain or loss on deferred hedges

As part of asset management, the Company engages in derivative transactions to reduce possible losses in assets or liabilities from price fluctuations and cash flow fluctuations. For some of these transactions, hedge accounting is applied to the items that meet specific criteria. The amounts withheld for the payment of taxes on gains and losses from derivative transactions as at the end of the fiscal year are recorded as gains or losses on deferred hedges.

II. Terms Used in the Statements of Operations [Equivalent to the Income Statement]

■ Revenues

1. Income from insurance and reinsurance premiums

❖ Insurance premiums

Insurance premiums are premiums paid by policyholders for their future insurance claims and other benefits.

❖ Reinsurance premiums

Reinsurance premiums comprise reinsurance claims received from reinsurers as determined in reinsurance policies and refund of reinsurance premiums due to cancellation or lapse of insurance policies.

2. Investment income

❖ Gain from proprietary trading securities

Please refer to proprietary trading securities in the assets section of balance sheet terminology.

❖ Gain from assets held in trust

Please refer to assets held in trust in the assets section of balance sheet terminology.

❖ Gain from derivative financial instruments

Gains/losses from derivative financial instruments consist of both realized and unrealized gains/losses derived from derivative financial instruments to which hedge accounting is not applied. When gains exceed losses, net gains are accounted for as gains from derivative financial instruments. When losses exceed gains, net losses are accounted for as losses from derivative financial instruments, net.

❖ Gain from separate accounts

The difference between gains and losses from the separate account is accounted for as gains from separate account when gains exceed losses and as losses from separate account, net when losses exceed gains.

❖ Foreign exchange gain, net

Gains or losses arise from foreign currency transactions due to differences of foreign exchange rates between the transaction date and the settlement date. Such gains and losses incurred during this period as well as gains and losses arising from the translation of foreign currency rights and obligations at the current rate as of the balance sheet date are offset, and the difference arising from the offsetting is accounted for as foreign exchange gains, net when total gains exceed total losses and as foreign exchange losses, net when total losses exceed total losses.

3. Other revenues

❖ Proceeds from handling of annuity riders included in other expenditures

This account represents insurance claims which are not paid in order to cover annuity resources when beneficiaries choose to receive insurance as annuities.

❖ Proceeds from deferred insurance included in other expenditures

This account represents insurance claims which are not paid based on beneficiaries' applications. Such insurance claims are deposited with a certain rate prescribed in the deferred insurance system established by the Company. When such insurance claims are paid based on beneficiaries' applications after a definite period, such payments are accounted for under other expenditures.

❖ Reversal of reserve for outstanding claims included in other expenses

Please refer to provision for policy reserves and others in expenditures

❖ Reversal of policy reserves included in other expenses

Please refer to provision for policy reserves and others in expenditures

■ Expenditures

1. Insurance claims and other payments

❖ Death and other claims

Death and other claims are insurance claims paid to beneficiaries when insured persons die during the periods of insurance, or when insured persons survive to maturity.

❖ Annuity payments

Annuity payments are annuities paid to insured persons or beneficiaries during the periods of insurance.

❖ Health and other benefits

Health and other benefits are benefits paid to insured persons when they are hospitalized for certain stipulated reasons or operated on during insured periods.

❖ Reinsurance premiums

Reinsurance premiums are premiums paid to other insurance companies pursuant to the reinsurance agreements mainly for the purpose of diversification of risks of high value policies.

2. Provision for policy reserves and others

As a unique accounting procedure in life insurance companies, the Company reverses policy reserves and reserve for outstanding claims as of the end of the prior fiscal year and provides policy reserves and reserve for outstanding claims as necessary as of the end of the current fiscal year (March 31). Reversal of and provision for such reserves are offset and presented in the statements of operations, and the difference between reversal of and provision for such reserves is accounted for as provision for policy reserves and provision for reserve for outstanding claims when the amounts of provision exceed the amounts of reversal, and as reversal of policy reserves and reversal of reserve for outstanding claims when the amounts of reversal exceed the amount of provision.

❖ Interest on reserve for dividends to policyholders

Dividends to policyholders which are deposited with interests in insurance companies from anniversary dates are accounted for as reserves for dividends to policyholders. Interest on reserve for dividends to policyholders is interest incurred during the periods of insurance, and added to reserve for dividends to policyholders.

3. Expenses for investment

- ❖ **Loss from proprietary trading securities, net**
Please refer to proprietary trading securities in the assets section of balance sheet terminology.
- ❖ **Loss from assets held in trust, net**
Please refer to assets held in trust in the assets section of balance sheet terminology.
- ❖ **Loss from derivative financial instruments, net**
Please refer to gains from derivative financial instruments recorded under revenues.
- ❖ **Loss from separate account, net**
Please refer to gains from separate account, net recorded under revenues.
- ❖ **Foreign exchange loss, net**
Please refer to foreign exchange gains, net recorded under revenues.
- ❖ **Write-down of loans**
This account represents write-down of unrecoverable loans mainly due to bankruptcy of borrowers. Write-down of loans is accounted for in the amounts of loans after deduction of allowance of doubtful accounts provided in the prior years.
- ❖ **Depreciation for rental real estate and other assets**
Please refer to depreciation expenses recorded under other expenditures below.

4. Operating expenses

Operating expenses comprise the various costs incurred in the Company's business and are equivalent to selling and general administrative expenses in other businesses.

5. Other expenditures

- ❖ **Repayments of deferred insurance**
Please refer to proceeds from deferred insurance recorded under revenues.
- ❖ **Depreciation expenses**
Depreciation is an accounting procedure used to write down the acquisition cost of an asset over its useful life. An apportioned cost is recorded for each fiscal year. The depreciation of real estate and movables held by life insurance companies is accounted for in the amounts depreciated for each fiscal year.
The depreciation expenses of real estate used for investment purposes is recorded as depreciation for rental real estate and other assets.

■ Extraordinary profits and extraordinary losses

- ❖ **Appraisal gains under Article 112 of the Insurance Business Law**
This pertains to appraisal gains on marketable stock securities in the general account in accordance with Article 112 of the Insurance Business Law. When the market value of marketable stock securities in the general account exceeds the book value, the Company is allowed to recognize appraisal gains on marketable stock securities in the general account within the difference between the market value and the book value and allocate such gains to policy reserves or reserve for dividends to policyholders based on the regulatory clearance.
- ❖ **Impairment loss**
Losses recorded based on accounting standards pertaining to the presence of fixed assets.
- ❖ **Losses on advanced depreciation deduction of real estate for tax purposes included in other under extraordinary losses**
The losses derived from the deduction of the acquisition costs of real estate as a result of the application of advanced depreciation due to swap, substitution or expropriation of real estate in accordance with the corporate tax law and the special taxation measures law.

■ Others

- ❖ **Deferred income taxes**
Deferred income taxes are the change in deferred tax assets/liabilities from the beginning to the end of the fiscal year, which includes deferred income taxes arising from reversal of revaluation reserve for land due to sales of land but does not include the change in deferred tax assets/liabilities regarding evaluation of other securities.

III. Terms Used in Statements of Changes in Net Assets

Each item listed under net assets in the financial statements reflects the change in an accounting period. Each item is categorized as the balance at the end of the fiscal year under review and shows that amount according to the reasons for changes.

Furthermore, until now, we had calculated the unappropriated surplus in the current year by adjusting the net surplus at the bottom of the income statement, but, because these items are shown in the statement of changes in net assets, the bottom of the income statement now shows net surplus.

- ❖ **Reversal of revaluation reserve for land**
The Company recorded a reversal of the revaluation reserve for land due to the revaluation of land sold for business purposes.

IV. Terms Used for Resolutions on Distribution of Surplus

- ❖ **Reserve and special account reserve for condensed booking for tax purposes**
The reserve for condensed booking for tax purposes is a reserve related to real estate that was replaced within the fiscal year under review. The special account reserve for condensed booking for tax purposes is a reserve related to real estate that, upon sale in the fiscal year under review, is scheduled for reacquisition in the following year or thereafter.

Matters Pertaining to Consolidated Settlements

I. Terms Used in the Consolidated Balance Sheets

- ❖ **Surplus**
Profit reserves and surpluses are posted as items under cumulative after-tax income calculated for the consolidated balance sheets. Until fiscal year 2001, ended March 31, 2002, revaluation reserves were also included in this total.
- ❖ **Cumulative translation adjustments**
When creating our consolidated financial statements, it is necessary to translate values recorded in the financial statements of overseas subsidiaries into yen. When translating foreign currency amounts into yen, the exchange rates will differ for various items. For this reason, a foreign currency translation difference is recorded on the consolidated balance sheets. The difference, excluding the amounts pertaining to the equity held by minority shareholders, is recorded as a foreign currency translation adjustment.
- ❖ **Minority interests**
The equity held by third parties other than the parent company in company subsidiaries is recorded.

II. Consolidated Statements of Operations

- ❖ **Minority interests**
This is the increase/decrease in equity held by subsidiary shareholders other than the parent company.
When this equity has increased, profits for minority interests is recorded; when it decreases, a loss for minority interests is recorded.

POLICYHOLDER PROTECTION SYSTEMS

Early Correction Safeguard System

Early correction safeguarding is a system designed to protect policyholders and ensure sound and appropriate operations at insurance companies. When an insurance company's solvency margin ratio falls below a certain level, and depending on the circumstances, the regulatory agency may issue a directive to the insurance company to improve its operations.

An insurance company is subject to such a directive when its solvency margin ratio falls below 200%. The action standards and directives are categorized in the table on the right.

Depending on the assets and liabilities of the insurance company, as well as the management improvement plans submitted to the regulatory agency, additional directives may be issued for classifications other than the solvency margin ratio in the table on the right.

■ Action Standards and Directives

Classification according to solvency margin	Directive
First classification Under 200% Over 100%	Management improvement plan proposal and directive to implement
Second classification Under 100% Over 0%	Directive to discontinue or limit policyholder dividends, directive to change calculation methods for new policies (anticipated rate of return, etc.)
Third classification Under 0%	Directive to halt all or a portion of operations

Bankruptcy Proceedings for Life Insurance Companies

When a life insurance company enters bankruptcy, the following two proceedings are taken to dispose of assets.

1. Corporate rehabilitation proceedings based on the court-guided rehabilitation law

This proceeding is taken under the supervision of a court of law.

First, the bankrupt insurance company petitions the court to start rehabilitation procedures (it is also possible to petition the Financial Services Agency in Japan). The court of law that received this petition decides to start the procedures and appoints an administrator.

The court-appointed administrator formulates a rehabilitation plan for transferring policyholders while managing and examining the operations and financial assets of the bankrupt insurance company. Through the decisions of related parties, the court-appointed administrator requests authorization from the court of law. After authorization is granted, the administrator executes the disposal of assets based on the rehabilitation plan.

2. Government proceedings based on the Insurance Business Law

These proceedings are based on directives by the Financial Services Agency.

The Financial Services Agency orders the cessation of all or a portion of operations at the bankrupt insurance company, and appoints an insurance administrator to dispose of financial assets under management and operations.

The insurance administrator manages and supervises the operations and financial assets of the bankrupt insurance company, creates plans for the management of operations and financial assets including the transfer of insurance policies, and seeks approval from the head of the Financial Services Agency. After approval is granted, the insurance administrator disposes of the assets according to the plan.

There are no clear standards as to which of the aforementioned procedures will be taken, and there are no differences in the indemnification through protective measures (see next page) between the two procedures.

Life Insurance Policyholders Protection Corporation of Japan

The Life Insurance Policyholders Protection Corporation of Japan is a corporate entity that was established in December 1998 through the Insurance Business Law. In the event that a life insurance company goes bankrupt, this entity will protect policyholders through a mutual support system.

• MEMBERS AND FINANCIAL RESOURCES

Nippon Life and other life insurance companies that operate in Japan are members of the Life Insurance Policyholders Protection Corporation of Japan, and financial resources are in principle contributions paid by these members. However, until at the end of March 2009, in the event that membership contributions from life insurance companies are insufficient as financial support to a life insurance company that goes bankrupt, the Japanese government may provide financial assistance to the Policyholders Protection Corporation through Diet deliberations.

• MAIN OPERATIONS

In the event of a bankruptcy of a life insurance company, the Policyholders Protection Corporation performs the following operations through a mutual support system for the purpose of protecting policyholders.

(Primary Operations of the Policyholders Protection Corporation)

1. Provides financial assistance to savior companies that take over insurance policies
2. Takes over insurance policies in the event that no savior company steps forward
3. Acts as a procedural representative for insurance policyholders in the event that the bankruptcy undergoes rehabilitation proceedings

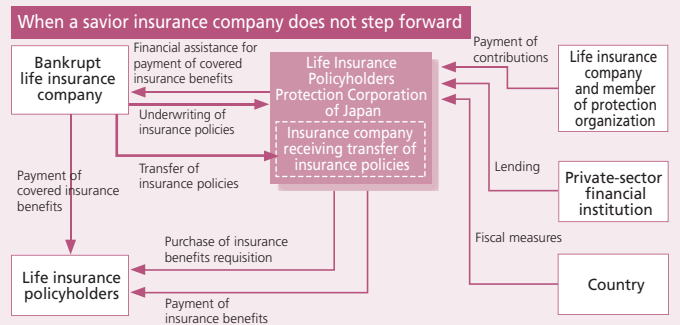
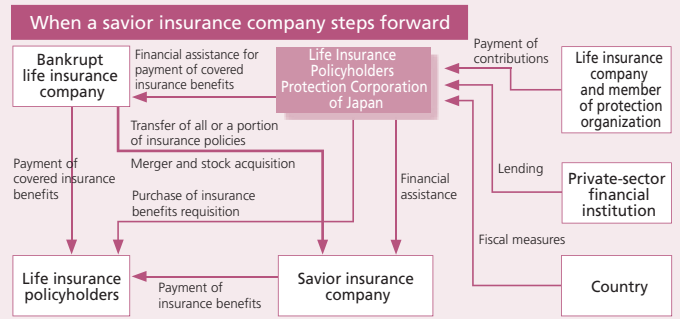
• **MAIN CONTENT OF INDEMNIFICATION**

In the event of a bankruptcy of a life insurance company, policy indemnification is as follows.

Type of insurance	Types of coverage	
Individual insurance	General policies	Policy reserves × 90% ^(Note 1)
	High assumed interest rate policies ^(Note 2)	Policy reserves × (90% – Set rate) ^(Notes 1, 3)
Group insurance	General policies	Policy reserves × 90% ^(Note 1)
	High assumed interest rate policies ^(Notes 2, 4)	Policy reserves × (90% – Set rate) ^(Notes 1, 3)
	Portion related to separate accounts of group annuity policies	Not eligible for indemnification ^(Note 5)

Notes: 1. Policy reserves are reserves for future insurance claims, annuity and benefit payments, accumulated through insurance premiums and investment returns.
 This system is not the indemnification for insurance claims, annuities and other benefits, but the indemnification for policy reserves. Accordingly, 90% of pension resource coverage attached to individual variable annuity insurance is not eligible for indemnification.
 2. High assumed interest rate policies¹ are policies for which assumed interest rates regularly exceeded reserve interest rates² during the five years preceding bankruptcy.
 *1. Reserve interest rates are determined by the Commissioner of the Financial Services Agency and the Finance Minister. The current reserve interest rate is 3%, which may be confirmed on the website of Nippon Life or the Policyholders Protection Corporation
 *2. When assumed interest rates are different for primary policies and for riders within one insurance policy, decisions of whether or not such policies fall under the category of a high assumed interest rate policy are made for both the primary policy and the rider
 3. Set rate = (sum of assumed interest rates for the previous five years less reserve interest rates) / 2
 4. In the event that assumed interest rates are different for each insured when the insured are contributing insurance premiums, each insured shall be deemed to have concluded their own insurance policy, and it shall be determined whether or not such a policy falls into the category of a high assumed interest rate policy. However, regarding defined contribution annuity insurance policies, regardless of whether or not the insured is contributing premium, it shall be determined whether or not each insured's policy falls into the category of a high assumed interest rate policy.
 5. In rehabilitation procedures, it has become possible to create a rehabilitation plan in which policy reserves that fall into this category are not reduced (whether or not the reserves are actually reduced shall be determined in each individual rehabilitation procedure.)

■ **Framework of Life Insurance Policyholders Protection Mechanisms**



Information on the previous page and this page, including that regarding the scope of policies eligible for indemnity and the limit of indemnity for eligible policies, is based upon current legal statutes, and is subject to change in the future in accordance with revisions to those legal statutes. (July 2007)