

# CHAPTER 1

## Business Performance In Fiscal Year Ended March 31, 2010

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A life insurance policy is an agreement with a customer that spans many years from the time of enrollment in a policy until receipt of insurance claims or benefits. Nippon Life will take steps to strengthen its financial foundation so that it will be able to reliably pay insurance claims and benefits into the future, thus fulfilling its responsibility to policyholders.

## Fiscal Soundness and Profitability Benchmarks

- ① Foundation funds (*kikin*) and reserves
- ② Policy reserves
- ③ Unrealized gain on securities
- ④ Solvency margin ratio
- ⑤ Real net assets
- ⑥ Ordinary income

\*In order to properly understand what makes a life insurance company fiscally sound and profitable, Nippon Life believes it is necessary to comprehensively review the characteristics of a variety of indicators.

## Fiscal Soundness and Profitability Benchmarks (image)

### Major Components of Soundness and Profitability Benchmarks ①-⑤

(Applicable items are marked with "●")

Balance Sheet	
(Assets)	(Liabilities)
	Policy reserves and others
	Policy reserves
	(include contingency reserve)
	Reserve for price fluctuations in investments in securities
	(Net assets)
	Foundation funds ( <i>kikin</i> )
	Reserve for redemption of foundation funds

	Balance Sheet Accounting Items					Unrealized gain on securities
	Policy reserves	Contingency reserve	Reserve for price fluctuations in investments in securities	Foundation funds ( <i>kikin</i> )	Reserve for redemption of foundation funds	
① Foundation funds ( <i>kikin</i> ) and reserves (p. 17.)		●	●	●	●	
② Policy reserves (p. 17.)	●	●				
③ Unrealized gain on securities (p. 17.)						●
Total solvency margin		●	●	●	●	●
④ Solvency margin ratio (p. 18.) = total solvency margin / (total amount of risk × 1/2) × 100						
⑤ Real net assets (p. 18.)		●	●	●	●	●

\*This table shows the main components of each benchmark.

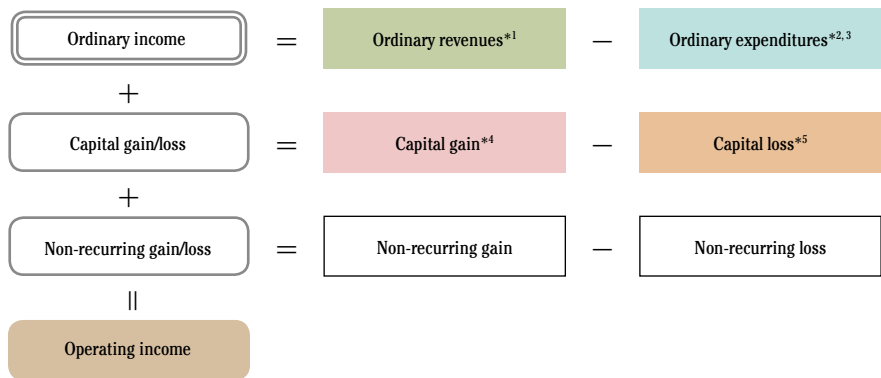
\*Foundation funds (*kikin*) and reserves, real net assets and others are not shown directly on the Balance Sheets.

Statement of Income	
Total revenues	
	Income from insurance and reinsurance premiums
Investment income	
	Interest, dividends and other income
	Gain on sales of securities
	Gain from separate accounts, net
	Other revenues
Total expenditures	
	Insurance claims and other payments
	Provision for policy reserves and others
Investment expenses	
	Loss on sales of securities
	Loss on valuation of securities
	Loss from separate accounts, net
	Operating expenses
	Other expenditures
	Operating income
	Extraordinary gains (losses)
	Surplus

### ⑥ Ordinary income

\*Please refer to p. 19 for more details regarding ordinary income.

\*Ordinary income is not shown directly on the Statements of Income.



\*1 Ordinary revenues = income from insurance and reinsurance premiums + investment income (excluding gain on sales of securities, etc.) + other revenues

\*2 Ordinary expenditures = insurance claims and other payments + provision for policy reserves + investment expenses (excluding loss on sales of securities, etc.) + operating expenses + other expenditures

\*3 Provision for policy reserves within ordinary expenditures excludes provisions (reversal) for contingency reserves.

\*4 Capital gain is gain on sales of securities within investment income.

\*5 Capital loss is loss on sales of securities and loss on valuation of securities within investment expenses.

The above illustrates the components of Nippon Life's fiscal soundness and profitability benchmarks and is not intended as a definitive explanation.

## ■ Accumulating Foundation Funds (*kikin*) and Reserves, Nippon Life's Strong Financial Platform

### Accumulating Foundation Funds (*kikin*) and Reserves

**¥2,805.8 billion** as of March 31, 2010 (¥2,653.8 billion as of March 31, 2009)

Foundation funds (*kikin*) and reserves include foundation funds and the reserve for redemption of foundation funds under net assets in the balance sheets as well as contingency reserves and reserves for price fluctuations in investments in securities under liabilities in the balance sheets.

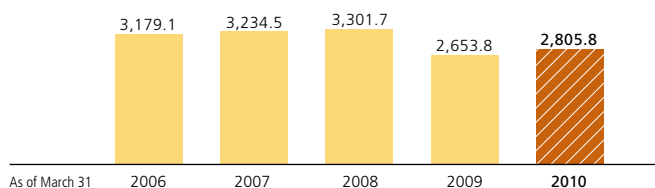
Nippon Life works to build up foundation funds (*kikin*) and reserves as equity. This equity is a financial resource for responding to risks that do not include unrealized gain on securities, which is easily affected by the economic environment. More specifically, even if management risks such as a dramatic decline in stock prices, or massive natural disasters occur, this financial platform enables Nippon Life to pay out insurance claims and benefits as stipulated in insurance policies. This equity is also a source of future dividend payments.

In the fiscal year ended March 31, 2009, in response to the global financial crisis, Nippon Life drew upon contingency reserves and reserves for price fluctuations in investments in securities within foundation funds

(*kikin*) and reserves that had been accumulating continuously in preparation for such an event. In the fiscal year ended March 31, 2010, Nippon Life newly solicited foundation funds (*kikin*) of ¥100.0 billion in August 2009. Consequently, the total foundation funds (*kikin*) and reserves remain high at ¥2,805.8 billion, ensuring Nippon Life's continued fiscal soundness.

### Trends in Foundation Funds (*kikin*) and Reserves

(Unit: Billions of Yen)



## ■ Sufficient Policy Reserves

### Policy Reserves

**¥42,014.3 billion** as of March 31, 2010 (¥40,880.1 billion as of March 31, 2009)

Policy reserves are reserves that must be accumulated under the Insurance Business Act in order to prepare for payments of future insurance claims, annuities and other benefits. Policy reserves are composed of premium reserves and unearned premiums for covering costs in the event of the occurrence of normally foreseeable risk as well as contingency reserves to cover costs in the event of the occurrence of risk that exceeds such predictions. (See p. 153.)

In addition, with respect to the reserve funding method for premium

reserves, Nippon Life utilizes the most conservative legal method (the net level premium method) for computing policy reserves. (See pp. 153 and 154.)

To ensure the greater financial soundness of individual annuities, which are expected to see continued negative spreads, we are further building up policy reserves over a five-year period that began in the fiscal year ended March 31, 2007 in order to ensure that we are fully prepared to meet future payment claims. (As of March 31, 2010, Nippon Life further accumulated a four-year cumulative total of approximately ¥960.0 billion.)

## ■ Unrealized Gain on Securities

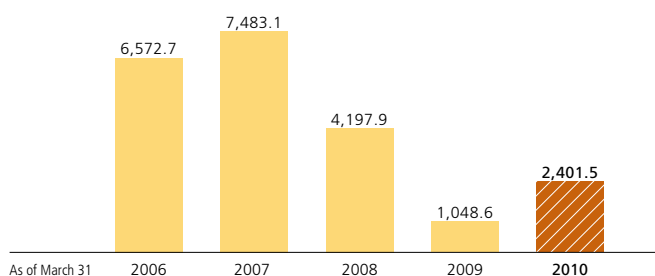
### Unrealized Gain on Securities

**¥2,401.5 billion** as of March 31, 2010 (¥1,048.6 billion as of March 31, 2009)

Unrealized gain on securities indicates the positive difference that exists when the market value of securities exceeds book value. Unrealized gain on securities, although affected by economic conditions, is one of the indicators for preparing against risk. (See p. 178.)

### Unrealized Gain on Securities

(Unit: Billions of Yen)



## ■ High-Level Solvency Margin Ratio to Respond to Unforeseeable Risks

### Solvency Margin Ratio

**1,006.0%** as of March 31, 2010

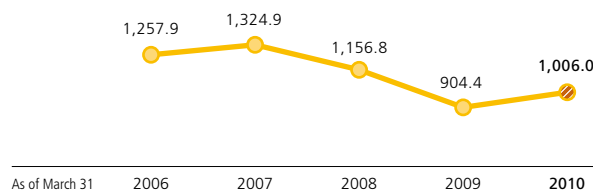
(904.4% as of March 31, 2009)

The solvency margin ratio is the total value of the solvency margin (the sum of foundation funds (*kikin*) and reserves, and unrealized gain/loss on securities, etc.) divided by the quantified amount of all risks exceeding those that can normally be forecast, including major natural disasters and a large drop in stock prices. The solvency margin is used by regulatory agencies as an indicator of the amount of surplus capacity available to make payments. When this ratio falls below 200%, an insurance company is subject to an order by the regulatory agencies to improve business.

The solvency margin ratio as of March 31, 2010 stood at 1,006.0%, ensuring a high level of preparedness to pay benefits with enough surplus capacity available to fully cover risk. (See p. 125.)

### Trends in the Solvency Margin Ratio

(Unit: %)



### Solvency Margin Ratio

(Unit: Billions of Yen, %)

As of March 31, 2010		
Total solvency margin	(A)	¥6,232.5
Foundation funds ( <i>kikin</i> ) and reserves		2,805.8
Unrealized gain/loss on available-for-sale securities × 90%		1,654.8
Total amount of risk	(B)	1,238.9
Solvency margin ratio	$\frac{(A)}{1/2 \times (B)} \times 100$	1,006.0%

## ■ High Level of Real Net Assets

### Real Net Assets

**¥6,806.2 billion** as of March 31, 2010

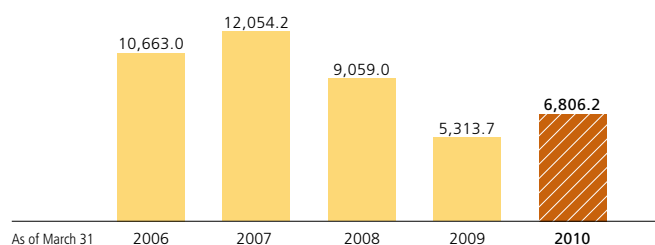
(¥5,313.7 billion as of March 31, 2009)

Real net assets are calculated by subtracting liabilities, other than contingency reserves and other liability items similar to equity, from total assets at market value. Real net assets are an approximation of an insurance company's liquidation value. If real net assets are negative, the regulatory agencies may judge that liabilities exceed assets, and an insurance company may be subject to an order by the regulatory agency to suspend business.

Real net assets as of March 31, 2010 stood at ¥6,806.2 billion and the ratio of real net assets (the ratio to general account assets) was 14.4%, ensuring that an ongoing high level is continuously maintained.

### Trends in Real Net Assets

(Unit: Billions of Yen)



## High Level of Ordinary Income

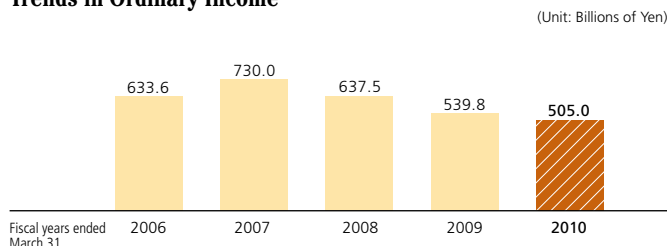
### Ordinary Income

**¥505.0 billion** for the fiscal year ended March 31, 2010 (¥539.8 billion for the fiscal year ended March 31, 2009)

Ordinary income mainly consists of income related to insurance (the net of income from premiums less payments for insurance claims and business costs) and investment operations, including interest and dividend income. It is the fundamental index that reflects an insurance company's earnings position on a flow basis. In the fiscal year ended March 31, 2010, ordinary income stood at ¥505.0 billion. (See p. 139.)

This figure is the amount remaining after covering negative spread for the fiscal year under review, ensuring that a high level is continuously maintained.

### Trends in Ordinary Income



### Negative Spread

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

#### Nippon Life's Response to Negative Spread

At the closing of accounts for the fiscal year ended March 31, 2010, Nippon Life ensured ordinary income of ¥505.0 billion for covering approx. ¥60.0 billion in negative spread.

To provide reserves for future large volatility in negative spreads due to various factors, including changes in the operating environment, Nippon Life has taken the following steps:

- To cover individual annuities that are a principal cause of a negative spread, from the fiscal year ended March 31, 2007, Nippon Life has accumulated and added to the policy reserves in order to amortize the negative spread in advance.
- Even assuming that severe conditions such as current low interest rates will continue, Nippon Life has accumulated foundation funds (*kikin*) and reserves to cover numerous risks, including negative spread.

#### ● Calculation of Negative Spread

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

$$\text{Negative spread [Approx. ¥60.0 billion]} = [\text{investment return on ordinary income [2.67\%]} - \text{average assumed interest rate [2.81\%]}] \times \text{general account policy reserves [¥38,684.0 billion]}$$

- The investment return on ordinary income is the return on general account policy reserves after deducting the provision for accumulated interest on policyholder dividends from general account investment revenues included in ordinary income.
- The 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) × 1/2

## Excellent Ratings from Ratings Companies (as of July 1, 2010)

### Ratings

**AA**

R&I (Insurance Claims Paying Ability)

**AA-**

S&P (Insurer Financial Strength Rating)

Issued by third-party ratings agencies, ratings are an evaluation of an insurance company's ability to pay insurance claims. (Ratings are not a guarantee that claims and other payments will be fulfilled.)

- \* 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 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.

#### R&I's Definition of "AA" Rating

<http://www.r-i.co.jp> (Japanese only)

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

#### S&P's Definition of "AA" Rating

<http://www.standardandpoors.co.jp> (Japanese only)

An extremely strong capacity to fulfill insurance policy obligations; only slightly different from its top ("AAA") rating.

#### Ranking Standard

AAA
AA
A
BBB
BB
B

⋮

The higher rank has the higher capacity to meet payment obligations.

## Business Environment

The Japanese economy witnessed a recovery in exports and production levels, however labor and income conditions showed further decline and the overall Japanese economy remained stagnant in the fiscal year ended March 31, 2010.

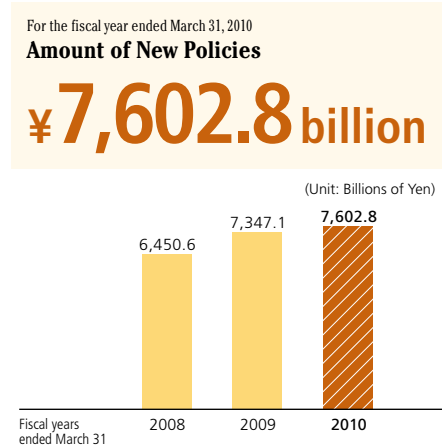
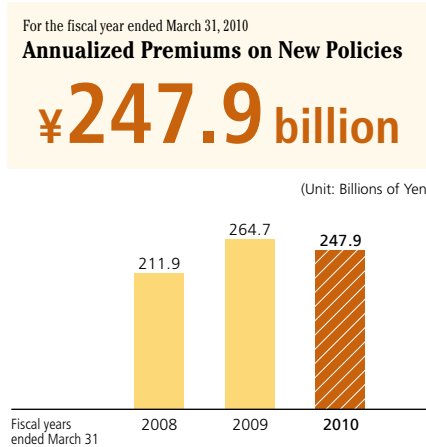
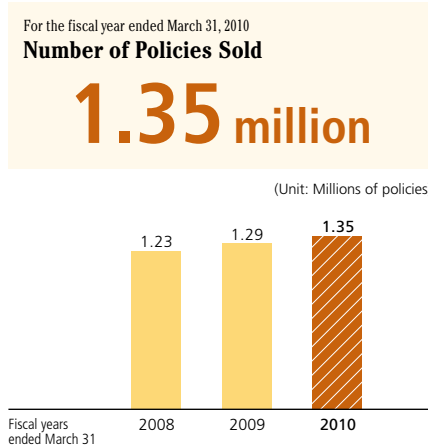
In the life insurance industry, companies have still not completely restored financial soundness following the impact of the financial crisis. In addition, insurance sales are declining in all sectors of the life insurance

industry. As a result, life insurers must seek new business strategies in order to build a base for growth.

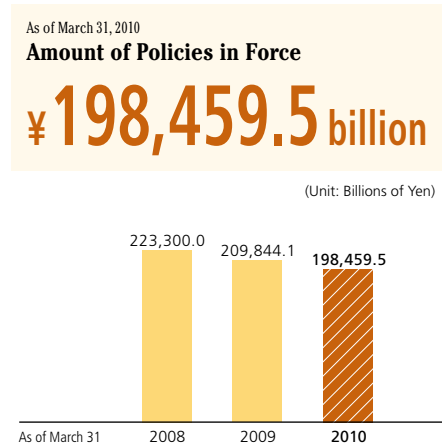
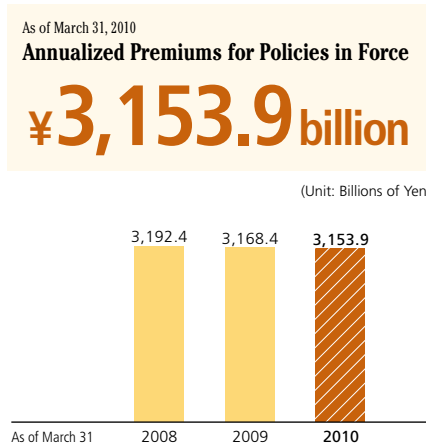
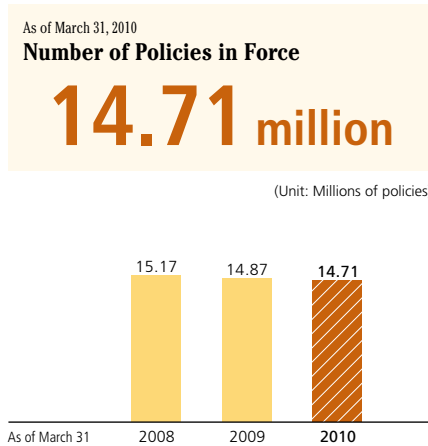
Staying true to its philosophy of “every effort for customers” in order to fulfill its insurance coverage responsibilities, Nippon Life focused on protecting current customers and establishing relationships with new customers. Overseas, we increased our activities with regard to both the insurance business and asset management.

## Individual Market Sales

### ● New Policies



### ● Policies in Force



- Notes: 1. Number of policies sold represents the total of new policies and policies after conversions.  
 2. Annualized premiums, the amount for an entire year, are calculated by applying coefficients based on the premium payment method to a single premium payment amount. (The premium divided by the coverage period is used for single payments.)  
 3. Amount of new policies and annualized premiums on new policies includes net increase due to conversions.  
 4. Amount of new policies and policies in force represents 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).

There were increases in the number of policies sold and the amount of new policies along with an improvement in the policy retention rate. As a result, there has been a steady decline in the pace of the continuing decrease in policies in force. In the individual life insurance sector, continuing to protect current customers while attracting new customers remain the highest priorities at Nippon Life.

The number of individual policies sold was 1.35 million (up 4.1% year on year) and the amount of new policies was ¥7,602.8 billion (up 3.5%). Measures to raise sales of *Mirai Support*, our core product, were the main driver of growth. Annualized premiums on new policies were ¥247.9 billion (down 6.3%) mainly because of a decrease in the bank assurance channel.

The number of policies in force was 14.71 million (down 1.1%), the amount of policies in force was ¥198,459.5 billion (down 5.4%) and annualized premiums for policies in force were ¥3,153.9 billion (down 0.5%). In recent years, Nippon Life has been using “Policy Details Confirmation Activities” and other measures to improve the policy retention rate along with the retention rate for sales representatives. These activities have reduced the rate of decline in the number of policies. However, the decrease in the number of policies still exceeds the number of new policies. We will continue to take actions aimed at increasing new policies and putting the breaks on the decrease in policies in force.

The number of sales representatives\*, which is Nippon Life’s primary distribution channel, increased by 313 year on year to 49,238 at the end of March 2010. This includes an increase of key sales representatives, who have superior sales and service capabilities, by 128 to 9,206. The number of sales representatives increased for two consecutive years. Hereafter, raising productivity per sales representative while maintaining recent improvements in the quality of policies is a central goal with regard to sales representatives.

Operations in each distribution channel were as follows.

In the sales representative channel, we continued the “Policy Details Confirmation Activities” in each respective sales areas and workplaces. Also, we increased activities to attract new customers. The primary themes are providing after-sales services to current customers and supplying new insurance and other services.

Nippon Life started the *Zutto Motto Service* in April 2010. Offering this service allows us to keep in touch with the changes of life stage of the policyholders and their family members. With this service, we will be able to provide timely after-sales services over the extended coverage period of policies. Also, this service will allow us to build ties with new customers by offering products that match the needs of entire households.

In addition, from September 2009, Nippon Life extended its sales activities to Saturdays in urban areas of Japan and we are receiving more appointments from our customers on Saturday than on weekdays.

For sales activities in the workplace, which is one of Nippon Life’s most important markets, there is a need to improve after-sales services for current policyholders. Nippon Life executives and head office sales personnel work as a unified team with sales representatives to explain the importance of after-sales services to companies. As a result, the number of companies that allow us to perform after-sales service activities in the workplace has gradually increased over the past few years. Furthermore, there was a large increase in the number of policies sold in the workplace market, compared to fiscal 2008. To further upgrade workplace services, we are expanding opportunities for workplace marketing activities and assigning personnel who can support the activities of sales representatives to all branches.

Through these activities, Nippon Life is increasing opportunities for sales representatives to contact customers. Also, training programs to enhance knowledge, skills and manners are another element of these activities. All of these measures are aimed at increasing the productivity of each sales representative.

In the life insurance agencies channel, the number of agencies steadily increased by 1,130 year on year to 9,749 at the end of March 2010. Along with this growth, there was an increase in the amount of new policies, including insurance for corporate managers. To raise the productivity of agencies, Nippon Life is training specialists in agency sales and is taking other steps to strengthen assistance provided to life insurance agencies.

In the bank assurance channel, sales were down in terms of annualized premiums on new policies as a decrease in sales of fixed amount annuities outweighed growth in sales of single-payment whole life insurance. Fixed amount annuity sales were down because of low interest rates, which make these policies less appealing, and competition getting more severe among the other large life insurance companies. In response, Nippon Life made its policies more attractive, such as by introducing in April 2010 a single-payment whole life insurance policy that people up to the age of 90 can purchase. Nippon Life will continue to serve new customers through this channel by deepening relationships with banks and providing support for their sales activities. The objective is to provide quality products rather than simply seeking growth in sales volume while maintaining the proper balance between risk and return for both customers and Nippon Life.

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

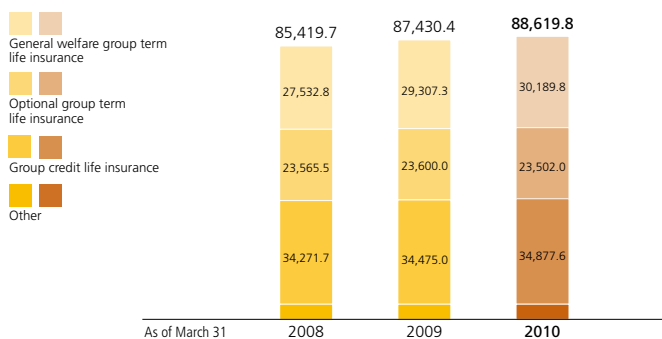
## Corporate Market Sales Field

As of March 31, 2010

### Amount of Group Insurance Policies in Force

# ¥88,619.8 billion

(Unit: Billions of Yen)

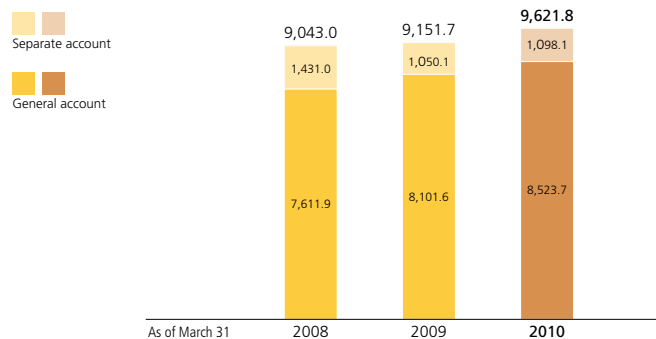


As of March 31, 2010

### Amount of Group Annuities in Force (Policy Reserves Amount\*)

# ¥9,621.8 billion

(Unit: Billions of Yen)



\*Policy reserves amount are reserves for future insurance claims, annuity and benefit payments, accumulated through insurance premiums and investment returns.

Nippon Life is steadily increasing its performance and market share in the categories of group insurance and group annuities. These market sectors are categories where our financial soundness and comprehensive strengths are valuable competitive advantages. By continuing to meet corporate needs for consulting services, Nippon Life increased the group insurance policies in force by ¥1,189.3 billion to ¥88,619.8 billion and the amount of group annuities in force by ¥470.1 billion to ¥9,621.8 billion (increased by ¥504.8 billion to ¥11,292.7 billion including Nissay Asset Management Corporation and other group companies).

Japanese companies are making major revisions to their employee benefit plans in response to changes in the economy and relationships between companies and their employees. We aim to achieve more growth in group annuities, including the operations of Nissay Asset Management and other Nippon Life Group companies, and group insurance by meeting the resulting needs with comprehensive consulting services based on current issues. In particular, we have been improving asset management consulting by our annuity teams, and we will expand collaboration with Nissay Asset Management, which is also enlarging its lineup of competitive products.

Japan will terminate the approved retirement annuity system on March 31, 2012. Nippon Life was responsible for about 15,000 of these approved annuity plans in the fiscal year that ended March 31, 2003. By the end of March 2010, approximately 80% of these customers had completed the transition to a different pension plan. We are working together with the remaining 20% of these companies with the goal of enabling them to reach a decision about a new plan by no later than December 2010.

Corporate sales personnel and sales representatives have formed a cohesive team to perform workplace sales activities. Workplace consulting for employees and employee benefit plan consulting for companies are the two components. Extending this assistance supplies coverage services with respect to the benefit plans of companies and what employees can do for themselves regarding benefits. We will continue to use our diverse capabilities to heighten our presence in this important market.

\*The amount of new group insurance policies (the increase in claims and the net increase in claims from midterm enrollment and withdrawals) for the fiscal year ended March 31, 2010 decreased 19.8% to ¥4,553.4 billion. The decrease in the amount of policies in force improved 8.3% to ¥3,364.0 billion.

## Total Payments of Insurance Claims, Annuities and Benefits

For the fiscal year ended March 31, 2010

# ¥2,577.5 billion

Payments of insurance claims, annuities and benefits totaled ¥2,577.5 billion in the fiscal year ended March 31, 2010. Nippon Life is committed to continuing to make payments with speed and reliability.

Insurance claims	¥1,173.8 billion
Annuities	¥540.2 billion
Benefits	¥863.4 billion
<b>Total</b>	<b>¥2,577.5 billion</b>



## Asset Management Field

Interest, dividends and other income decreased 2.5% to ¥1,119.5 billion due to low interest rates and a decline in stock dividends. Despite the difficult market conditions, we have improved the portfolio in a manner that reflects the nature of liabilities, such as well-timed bond investments in Japan and growth in investments in foreign bonds accompanied by foreign exchange hedges. These activities produced current income while establishing sources of income in the future.

A capital gain was recorded following the large capital loss in the previous fiscal year resulting from the extreme volatility of financial markets sparked by the financial crisis. One cause was a smaller loss on valuation of securities associated with hedges for foreign currency-denominated assets as the yen appreciated. Gains from well-timed stock transactions as stock prices fluctuated also contributed to the capital gain.

We will continue to make investments in carefully selected financial instruments while properly manage risks involving interest rates, stock prices, exchange rates and other items. The objectives are maintaining the stability of long-term income while seeking growth and eliminating negative spreads as quickly as possible.

## Revenues and Expenditures and Financial Condition

Ordinary income, which reflects an insurance company's earnings power, decreased 6.5% to ¥505.0 billion due to lower interest income because of weak corporate earnings, a continuation of negative spreads and the continuing decline in policies in force were the primary causes of this decrease. Nippon Life's highest priorities are to increase efforts to stop the downturn in policies in force and take steps to restore earnings power.

Nippon Life has been consistently increasing foundation funds (*kikin*) and reserves. We solicited an additional ¥100.0 billion of foundation funds (*kikin*) as planned in August 2009, raising foundation funds (*kikin*) to ¥1,050.0 billion. Overall, there was a ¥151.9 billion increase in foundation funds (*kikin*) and reserves to ¥2,805.8 billion at the end of March 2010.

\*Nippon Life accumulates foundation funds (*kikin*) and reserves as equity. This figure includes foundation funds (*kikin*), which are equivalent to the capital of a joint-stock company, and the contingency reserve and reserve for price fluctuations in investments in securities, which are established for the corresponding risks.

Nippon Life has been making additions to policy reserves since the fiscal year ended March 31, 2007 for the purpose of offsetting future negative spreads on individual annuities.

Although revenues and profits were weak in the fiscal year that ended March 31, 2010, Nippon Life maintained the same level of dividends as in the previous fiscal year for individual insurance and individual annuities based on the policy of paying a stable dividend.

## Main Asset Management-Related Revenues and Expenditures

(Unit: Billions of Yen, %)

Fiscal years ended March 31	2010	Rate of increase	2009	2008
Investment income	¥1,555.1	24.7%	¥1,247.0	¥1,352.6
Interest, dividends and other income	1,119.5	(2.5)	1,148.4	1,234.5
Gain on sales of securities	185.4	109.3	88.6	106.9
Gain from separate accounts, net	200.1	—	—	—
Investment expenses	296.0	(76.2)	1,245.9	555.8
Loss on sales of securities	123.6	3.5	119.5	93.2
Loss on valuation of securities	81.8	(84.5)	527.9	39.2
Loss from separate accounts, net	—	—	353.3	265.9
Net proceeds from investments	1,259.0	—	1.1	796.7
Proceeds from investments in the general account	1,058.9	198.7	354.4	1,062.7

Notes: 1. Aggregate investment income and investment expenses in the separate account are included in either gain or loss from separate accounts, net.  
2. No rate of increase is shown for net proceeds from investments because the percentage is more than 1,000%.

## Operating Income

(Unit: Billions of Yen, %)

Fiscal years ended March 31	2010	Rate of increase	2009	2008
Ordinary income	¥ 505.0	(6.5)%	¥ 539.8	¥ 637.5
Capital gain/loss	14.7	—	(744.0)	(121.0)
Non-recurring gain/loss	(226.2)	—	323.3	(204.7)
Operating income	¥ 293.5	146.2 %	¥ 119.2	¥ 311.7

Notes: 1. Ordinary income + capital gain/loss + non-recurring gain/loss = operating income  
2. Capital gain/loss includes gain/loss on sales of securities and loss on valuation of securities.  
3. Non-recurring gain/loss includes provision for additional policy reserves and reversal of contingency reserves and others.

## Equity Replacement Ratio

(Unit: Billions of Yen, %)

Fiscal years ended March 31	2010	Amount of increase	2009	2008
Foundation funds ( <i>kikin</i> ) and reserves	¥2,805.8	¥151.9	¥2,653.8	¥3,301.7
Net assets	1,217.2	99.2	1,118.0	1,067.6
Liabilities	1,588.5	52.6	1,535.8	2,234.1
Contingency reserve	864.4	—	864.4	1,429.0
Reserve for price fluctuations in investments in securities	¥ 398.0	¥ 25.9	¥ 372.0	¥ 487.2
Equity replacement ratio	64%	—	61%	70%

Notes: 1. Net assets are shown as the amount after the appropriation of retained earnings after deducting valuations, conversions and others from total net assets on the balance sheets.  
2. The equity replacement ratio is the ratio of foundation funds (*kikin*) and reserves divided by the required level of optimum equity (¥4.4 trillion at the end of March 2010 and March 2009 and ¥4.7 trillion at the end of March 2008), which is the amount of equity required based on a rigorous evaluation of business risk.

## Dividend Payout Ratio

(Unit: Billions of Yen, %)

Fiscal years ended March 31	2010	Amount of increase	2009	2008	
Provision for reserve for policyholder dividends	1	¥ 199.1	¥ 68.5	¥130.6	¥226.2
Increased amount of foundation funds ( <i>kikin</i> ) and reserves		101.9	—	—	117.1
Total	2	¥301.1	¥170.4	¥130.6	¥343.4
Dividend payout ratio	1/2	66%	—	100%	66%

Notes: 1. The provision for reserve for policyholder dividends shows the amount after the appropriation of surplus.  
2. Increased amount of foundation funds (*kikin*) and reserves is the amount after deducting the amount of increase or decrease due to the solicitation and repayment of foundation funds (*kikin*) from the increase in foundation funds (*kikin*) and reserves (long-dash indicates a negative amount).

## ■ Main Balance Sheet Items (Non-Consolidated Basis)

(Unit: Billions of Yen)

As of March 31	2010	2009	2008		
<b>ASSETS</b>					
Cash and deposits	¥ 579.8	¥ 558.3	¥ 500.6		
Call loans	146.1	203.8	196.1		
Receivables under securities borrowing transactions	151.6	—	—		
Monetary receivables purchased	1,152.2	1,160.3	1,379.3		
Assets held in trust	10.6	114.6	170.5		
Investments in securities:	34,949.3	31,334.8	34,003.7	-(A)	
Domestic bonds	17,839.2	17,354.6	16,761.3		
Domestic stocks	7,214.4	5,855.1	8,762.3		
Foreign securities	9,421.5	7,688.0	7,994.2		
Loans receivable:	8,770.8	9,133.4	9,553.3	-(B)	
Policy loans	1,025.6	1,087.4	1,139.2		
Industrial and consumer loans	7,745.1	8,045.9	8,414.1		
Tangible fixed assets	1,788.9	1,672.0	1,675.2	-(C)	
Intangible fixed assets	185.3	169.7	153.5		
Reinsurance receivables	0.3	0.2	0.6		
Other assets	524.4	558.8	529.1		
Deferred tax assets	435.0	926.8	—		
Customers' liability for acceptances and guarantees	14.6	13.6	7.9		
Allowance for doubtful accounts	(24.6)	(21.1)	(34.9)		
[Total general account assets]	[47,235.0]	[44,454.3]	[46,275.0]		
[Total separate account assets]	[1,449.7]	[1,371.5]	[1,860.2]		
<b>Total assets</b>	<b>¥48,684.8</b>	<b>¥45,825.8</b>	<b>¥48,135.2</b>	-(D)	
<b>LIABILITIES</b>					
Policy reserves and other reserves:	¥43,387.2	¥42,317.6	¥42,209.8		
Reserve for outstanding claims	222.7	222.0	236.9		
Policy reserves	42,014.3	40,880.1	40,739.5	-(E)	
Reserve for dividends to policyholders	1,150.1	1,215.3	1,233.2		
Reinsurance payables	0.3	0.3	0.3		
Other liabilities	1,748.6	1,080.9	1,190.4		
Accrued bonuses for directors and corporate auditors	0.0	0.0	0.0		
Accrued severance indemnities	451.0	438.9	433.7		
Accrued retirement benefits for directors and corporate auditors	5.9	5.9	5.8		
Accrued losses from supporting closely related companies	0.4	0.4	0.5		
Reserve for price fluctuations in investments in securities	398.0	372.0	487.2		
Deferred tax liabilities	—	—	138.2		
Deferred tax liabilities for land revaluation reserve	174.0	176.0	177.2		
Acceptances and guarantees	14.6	13.6	7.9		
<b>Total liabilities</b>	<b>¥46,180.3</b>	<b>¥44,406.0</b>	<b>¥44,651.5</b>		
<b>NET ASSETS</b>					
Foundation funds	1	¥ 250.0	¥ 200.0	¥ 200.0	-(F)
Reserve for redemption of foundation funds	2	800.0	750.0	700.0	-(F)
Reserve for revaluation	3	0.6	0.6	0.6	
Surplus:	4	369.4	300.5	395.7	
Legal reserve for deficiencies		10.4	9.8	9.0	
Voluntary surplus reserve		359.0	290.6	386.7	
Unappropriated surplus		254.6	185.0	281.3	
<b>Total equity</b> [1 + 2 + 3 + 4]	<b>1,420.1</b>	<b>1,251.1</b>	<b>1,296.3</b>		
Net unrealized gains on available-for-sale securities, net of tax	5	1,176.0	259.6	2,276.1	-(G)
Deferred gains on derivatives under hedge accounting	6	(0.6)	0.0	0.1	
Land revaluation differences	7	(91.1)	(91.0)	(88.9)	
<b>Total valuations, conversions and others</b> [5 + 6 + 7]	<b>1,084.3</b>	<b>168.6</b>	<b>2,187.3</b>		
<b>Total net assets</b>	<b>2,504.4</b>	<b>1,419.8</b>	<b>3,483.7</b>		
<b>Total liabilities and net assets</b>	<b>¥48,684.8</b>	<b>¥45,825.8</b>	<b>¥48,135.2</b>		

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

\*Please see page 106 for Non-Consolidated Balance Sheets.

### (A) Investments in Securities

From the standpoint of paying out dividends to policyholders through the medium- and long-term improvement of revenues and profits, Nippon Life particularly holds domestic bonds, including national government bonds, local government bonds and corporate bonds, all of which present potential for yen-denominated stable return. Also, within the range of allowable risks, Nippon Life invests in domestic stocks, foreign securities and other securities. As of March 31, 2010, total investments in securities amounted to ¥34,949.3 billion.

The number of Japanese corporations whose securities are held in the general account of Nippon Life totaled 2,606 as of March 31, 2010.

### (B) Loans Receivable

Loans receivable are classified into two major categories. One is policy loans, which comprise policyholder loans and premium loans. The other is industrial and consumer loans, which include international and domestic corporate loans and housing loans. The balance of loans receivable stood at ¥8,770.8 billion as of March 31, 2010.

The number of domestic corporate borrowers to which Nippon Life has extended loans totaled 2,276 as of March 31, 2010. Of these borrowers, 1,308 fall under the category of leading medium-sized, general medium-sized and small corporations, accounting for 57.5% of total loans in the general account extended by Nippon Life to domestic corporations. (See p. 172.)

### (C) Tangible Fixed Assets

Tangible fixed assets include land, buildings, lease assets, construction in progress and movables. As of March 31, 2010, the balance amounted to ¥1,788.9 billion.

The number of buildings held for leasing in Japan by Nippon Life and accounted for in the general account totaled 395 as of March 31, 2010. (See p. 173.)

### (D) Total Assets

Total assets as of March 31, 2010 increased 6.2% year on year to ¥48,684.8 billion, with total general and separate account assets totaling ¥47,235.0 billion and ¥1,449.7 billion, respectively.

### (E) Policy Reserves

Policy reserves are reserves that must be accumulated under the Insurance Business Act in order to prepare for payments of future insurance claims and other benefits. With respect to the reserve funding method for premium reserves, Nippon Life utilizes the most conservative legal method (the net level premium method) for computing policy reserves. As of March 31, 2010, policy reserves stood at ¥42,014.3 billion.

### (F) Foundation Funds (*Kikin*)/ Reserve for Redemption of Foundation Funds

In accordance with the Insurance Business Act, foundation funds (*kikin*) serve as the financial base for mutual companies while providing a means of financing granted only for mutual companies and corresponding to the capital of joint stock companies. Meanwhile, the said law stipulates that a mutual company shall provide a reserve for redemption of foundation funds in the same amount as the foundation funds (*kikin*) to be redeemed.

During the fiscal year ended March 31, 2010, Nippon Life redeemed ¥50.0 billion in foundation funds (*kikin*) that it had solicited and newly solicited ¥100.0 billion. As a result, foundation funds (*kikin*) and reserve for redemption of foundation funds amounted to ¥250.0 billion and ¥800.0 billion, respectively.

### (G) Net Unrealized Gains on Available-for-Sale Securities, Net of Tax

Nippon Life assesses the market value of available-for-sale securities, and records the difference between the market value and book value of these securities (net of tax effects). As of March 31, 2010, net unrealized gains on available-for-sale securities, net of tax, was ¥1,176.0 billion.

\*Please see page 197 for an explanation of balance sheet terminology.

## ■ Main Items in Statements of Income (Non-Consolidated Basis)

(Unit: Billions of Yen)

Fiscal years ended of March 31	2010	2009	2008	
<b>① Total revenues:</b>	<b>¥6,594.6</b>	<b>¥6,605.0</b>	<b>¥6,509.4</b>	
Income from insurance and reinsurance premiums:	4,817.4	5,036.7	4,890.0	-(A)
Insurance premiums	4,816.6	5,035.5	4,889.0	
Investment income:	1,555.1	1,247.0	1,352.6	-(B)
Interest, dividends and other income	1,119.5	1,148.4	1,234.5	
Gain from assets held in trust, net	27.9	—	—	
Gain on sales of securities	185.4	88.6	106.9	
Gain from derivative financial instruments, net	19.6	—	—	
Gain from separate accounts, net	200.1	—	—	
Other revenues	221.9	321.2	266.7	
<b>② Total expenditures:</b>	<b>6,301.1</b>	<b>6,485.8</b>	<b>6,197.7</b>	
Insurance claims and other payments:	3,882.9	4,036.8	4,212.9	-(C)
Death and other claims	1,173.8	1,313.6	1,394.9	
Annuity payments	540.2	506.8	475.7	
Health and other benefits	863.4	832.2	822.9	
Surrender benefits	1,059.6	1,102.0	1,166.9	
Other refunds	244.4	280.6	350.9	
Provision for policy reserves:	1,166.0	173.7	392.2	-(D)
Provision for claim reserves	0.6	—	—	
Provision for policy reserves	1,134.2	140.5	357.0	
Interest on reserve for dividends to policyholders	31.1	33.2	35.1	
Investment expenses:	296.0	1,245.9	555.8	-(E)
Interest expense	2.1	3.3	6.0	
Loss from assets held in trust, net	—	55.8	21.4	
Loss on sales of securities	123.6	119.5	93.2	
Loss on valuation of securities	81.8	527.9	39.2	
Loss from derivative financial instruments, net	—	113.3	63.7	
Loss from separate accounts, net	—	353.3	265.9	
Operating expenses	573.6	563.2	552.8	
Other expenditures	382.3	466.0	483.8	
<b>③ Operating income (= ① - ②)</b>	<b>293.5</b>	<b>119.2</b>	<b>311.7</b>	-(F)
<b>④ Extraordinary gains:</b>	<b>1.3</b>	<b>126.0</b>	<b>1.2</b>	
Gain on disposal of fixed assets	1.3	1.0	1.2	
Reversal of reserve for price fluctuations in investments in securities	—	115.2	—	
Reversal of allowance for doubtful accounts	—	9.7	—	
<b>⑤ Extraordinary losses:</b>	<b>40.6</b>	<b>11.4</b>	<b>32.9</b>	
Loss on disposal of fixed assets	5.0	3.7	7.2	
Impairment loss	6.6	5.9	4.6	
Provision for reserve for price fluctuations in investments in securities	25.9	—	20.0	
Loss on reduction entry of real estate	0.3	0.2	0.1	
Contributions for assisting social public welfare	2.5	1.4	0.9	
<b>⑥ Extraordinary gains (losses) (= ④ - ⑤)</b>	<b>(39.2)</b>	<b>114.6</b>	<b>(31.7)</b>	
<b>⑦ Surplus before income taxes (= ③ + ⑥):</b>	<b>254.2</b>	<b>233.8</b>	<b>280.0</b>	
Income taxes, current	1.3	(1.3)	103.3	
Income taxes, deferred	0.8	53.6	(99.7)	
<b>⑧ Income tax—total</b>	<b>2.2</b>	<b>52.3</b>	<b>3.5</b>	
<b>⑨ Net surplus (= ⑦ - ⑧)</b>	<b>252.0</b>	<b>181.5</b>	<b>276.4</b>	-(G)

\*Please see page 108 for Non-Consolidated Statements of Income.

**(A) Income from Insurance and Reinsurance Premiums**

Comprising insurance and reinsurance premiums paid by policyholders, income from insurance and reinsurance premiums for the fiscal year ended March 31, 2010 decreased 4.4% year on year to ¥4,817.4 billion.

**(B) Investment Income**

This includes interest, dividends and other income as well as gain on sales of securities. For the fiscal year ended March 31, 2010, investment income totaled ¥1,555.1 billion.

**(C) Insurance Claims and Other Payments**

These consist of payments related to insurance policies, including death and other claims, annuity payments, health and other benefits and surrender benefits. For the fiscal year ended March 31, 2010, insurance claims and other payments declined 3.8% year on year to ¥3,882.9 billion.

**(D) Provision for Policy Reserves**

This includes provisions to policy reserves, and interest on reserve for dividends to employees. For the fiscal year ended March 31, 2010, provision for policy reserves totaled ¥1,166.0 billion.

**(E) Investment Expenses**

These are expenses including loss on sales of securities and loss on valuation of securities. For the fiscal year ended March 31, 2010, investment expenses amounted to ¥296.0 billion.

**(F) Operating Income**

For the fiscal year ended March 31, 2010, operating income was ¥293.5 billion, reflecting an improved investment balance.

**(G) Net surplus**

This item represents operating income after accounting for extraordinary gains and losses, income taxes and other items. The surplus in the fiscal year ended March 31, 2010 totaled ¥252.0 billion.

## Group Management Structure

### ● Administrative Operations, IT Systems and Customer Services

Procedures extending from applications to payments are integral elements of all products of a life insurance company. This is why administrative operations and IT systems play a vital role in the quality of customer services.

We established the Customer Service Headquarters in March 2009 to heighten the awareness that administrative operations are directly linked to customer service. We are responsible for preserving the proper balance among three goals: improving customer satisfaction, increasing productivity and raising efficiency. We extend administrative and other services to assist marketing activities and accomplish five goals, one of which is having policyholders switch to the *Comprehensive Medical Rider*. We already have many achievements, notably more than 1.6 million conversions to the *Comprehensive Medical Rider* as of June 2010 since this rider was introduced in October 2008.

A comprehensive reexamination from the customers' viewpoint of activities extending from applications to payment is under way as we move

### ● Risk Management and Compliance

In regard to risk management, based on growing requests from the public in response to recent changes in the social environment, as well as our obligation to fulfill our insurance coverage responsibilities to customers, which is a characteristic of the insurance business, Nippon Life monitors various risks, including risks involving insurance underwriting, asset management, administrative operations and IT systems, while performing the integrated management of all risk categories.

### ● Overseas Operations and Alliances

Through about 40 years of experience with overseas operations and numerous alliances with prominent partner companies, Nippon Life is targeting growth opportunities in the insurance market, and gaining expertise in the latest developments in the insurance industry, as well as increasing returns on asset management.

In China, the insurance company that we established in 2003 changed its joint venture partner in September 2009 to China Great Wall Asset Management Corporation (CGWAMC). As a result, this insurance company has been renamed Nissay-Greatwall Life Insurance Co., Ltd. CGWAMC is one of China's four major government-owned asset management firms and has offices in all areas of China. Bank assurance of Nissay-Greatwall Life's policies started in February 2010 at the Shanghai branch of Agricultural Bank of China, which has a close relationship with CGWAMC. Sales are to be extended to the Beijing branch and other locations of this bank. Plans also call for using CGWAMC as a corporate sales agency to increase sales of group insurance to Chinese companies as one more way to expand the insurance business of Nissay-Greatwall Life.

In the United States, Nippon Life Insurance Company of America is cooperating with the Principal Financial Group to offer group health

closer to the 2012 completion of the New Integrated System Project. We are making steady progress in enhancing the quality of services. One big step was the launch of the Payment Underwriting System in May 2010. There are three main benefits: procedures that are simpler and easier to understand for customers; accurate and speedy benefit settlement assessments and reliable distribution of information on receiving benefits; and polite and thorough after-sales service.

In addition, we are revising our personnel system so that all employees can work in a broader range of positions. As part of this process, we are giving administrative workers the training needed to serve customers and assigning these individuals to branches throughout Japan.

Nippon Life will continue to improve customer services by adopting a unified approach to sales activities and all related administrative and other services.

Furthermore, we will continue our employee training program designed to reinforce compliance awareness.

The number of complaints has been decreasing over the past few years as customer satisfaction improves. We will continue to aim for constant progress in upgrading customer services. At the same time, we will continue implementing effective and extensive risk management and compliance programs.

insurance. In addition, we are strengthening ties with Putnam Investments Inc. and The Northwestern Mutual Life Insurance Company mainly in the field of asset management. In March 2010, we invested in surplus notes\* issued by Northwestern Mutual. In September 2009, we invested in The Prudential Insurance Company of America, one of the largest insurance groups in the United States and are now seeking opportunities to work with this company.

In Europe and Asia, we changed the partner for our asset management subsidiaries in London and Singapore to Schroders plc for the purpose of strengthening equity investment capabilities.

For overseas operations, we will continue to form alliances with well-known partners in order to mitigate risks associated with differences in business practices, local customs and other factors. We will conduct these operations with a long-term view while promoting the mutual exchange of personnel and knowledge, making investments and taking other actions needed to achieve our objectives.

\*Surplus notes are financial instruments issued by U.S. life insurers. These notes pay interest periodically and are redeemed at maturity just like an ordinary bond. Surplus notes are treated as capital under U.S. insurance industry regulatory accounting standards.