

# CHAPTER 1

## Business Performance in the Fiscal Year Ended March 31, 2013

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### [Key Performance Financial Highlights (Nonconsolidated Basis)]

(Unit: Billions of Yen or as Noted)

For the years ended March 31	2013	2012	2011
Ordinary income	¥ 7,094.2	¥ 7,074.9	¥ 6,646.8
Ordinary profit	388.7	481.5	231.0
Core operating profit	546.5	544.3	516.3
Net surplus	210.6	221.8	231.7
Dividend reserves as a percentage of surplus available for disposition <sup>1</sup> [%]	95.38%	98.27%	99.96%
Total assets	54,882.8	51,009.4	49,826.1
Separate account assets	1,238.8	1,146.6	1,311.3
Investments in securities	42,274.1	37,522.7	35,674.7
Loans	8,581.8	8,721.6	8,743.3
Policy reserves	46,161.2	44,448.0	43,106.8
Equity <sup>2</sup>	3,122.9	2,824.1	2,767.3
Foundation funds ( <i>kikin</i> ) and reserves	2,965.9	2,824.1	2,767.3
Total foundation funds ( <i>kikin</i> ) <sup>3</sup>	1,250.0	1,200.0	1,100.0
Solvency margin ratio <sup>4</sup> [%]	696.4%	567.0%	(529.1%) 966.2%
Policies in force <sup>5</sup>	267,956.7	272,666.5	279,096.6
Individual insurance	156,313.2	162,385.4	170,791.7
Individual annuities	19,682.5	19,047.0	18,314.5
Group insurance	91,960.9	91,234.0	89,990.3
Policies in force for group annuities <sup>6</sup>	10,911.5	10,476.9	9,952.8
Number of customers [number of insured persons, etc.] <sup>7</sup>	11,514,169	11,618,068	—
Number of customers [number of policyholders, etc.] <sup>8</sup>	9,878,861	9,915,994	9,954,059
Number of company members <sup>9</sup>	9,147,438	9,216,162	9,348,926
Number of employees <sup>10</sup>	70,004	69,620	70,002
Negative spread <sup>11</sup> [approximate]	—	—	—

- Notes: 1. Dividend reserves as a percentage of surplus available for disposition refer to the percentage of the amount calculated according to Article 30-4 of the Ordinance for Enforcement of the Insurance Business Act and include the total of provisions for reserve for dividends to policyholders and the equalized reserve for dividends to policyholders. The percentage, according to Article 30-6 of the same regulation is 20% or more. For the purposes of this calculation, undisposed current-term surplus less the surplus carried forward from the previous term is used as the denominator (See p. 128).
2. Starting with the fiscal year ended March 31, 2013, Nippon Life defines equity as the sum of foundation funds (*kikin*), reserves and subordinated debt.
3. Total foundation funds (*kikin*) includes the reserve for redemption of foundation funds (See p. 19).
4. In accordance with Cabinet Office Ordinance No. 23 of 2010 and Financial Services Agency Public Notice No. 48 of 2010, part of the calculation standard for the solvency margin gross amount and the total amount of risk has been changed (tightening of margin calculations, tightening and refining of risk measurements, etc.). As a result of this change, the above result for fiscal 2011 has been calculated using a different standard to the results for fiscal 2012 to fiscal 2013. Moreover, the figure given in brackets for the fiscal 2011 year-end was disclosed during fiscal 2011 as the figure that would have resulted if the fiscal 2012 calculation standard had been used at the fiscal 2011 year-end.
5. Policies in force are the total of individual insurance, individual annuities and group insurance policies in force. Individual annuities are the total of annuity resources at the start of annuities for policies prior to the start of annuity payments and policy reserves for policies after the start of them.
6. Policies in force for group annuities indicate the amount of policy reserves.
7. The number of customers (number of insured persons, etc.) is the number of insured persons enrolled in individual insurance and individual annuities, plus customers who have deferred maturity benefits and other payments, plus customers who have enrolled in policies offered by Aioi Nissay Dowa Insurance Co., Ltd. From the fiscal 2012, Nippon Life will disclose the number of customers based on insured persons, along with the number of customers based on policyholders, which was disclosed previously.
8. The number of customers (number of policyholders, etc.) is the number of policyholders enrolled in individual insurance and individual annuity insurance. Furthermore, as Nippon Life expands the range of customers to whom services are provided, from the fiscal year ended March 31, 2010, the number of customers includes customers who have deferred maturity benefits and other payments, and customers who have enrolled in policies offered by Aioi Nissay Dowa Insurance Co., Ltd. (prior to September 2010, Nissay Dowa General Insurance Company, Limited).
9. In the case of a mutual company, "company members" refers to policyholders (excluding non-participating insurance policyholders).
10. The number of employees includes staff increases resulting from the direct employment of temporary employees implemented as of April 1, 2010 in the fiscal year ended March 31, 2011.
11. In the fiscal year ended March 31, 2013, 2012 and 2011, there was no negative spread.

# Soundness and Profitability of Nippon Life

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 Equity
- ② Policy reserves
- ③ Unrealized gain on securities
- ④ Solvency margin ratio
- ⑤ Real net assets
- ⑥ Core operating profit

\*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]

Balance Sheets	
(Assets)	(Liabilities)
	Policy reserves and other reserves
	Policy reserves (include contingency reserve)
	Corporate bonds
	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	Corporate bonds (subordinated bonds)	Reserve for price fluctuations in investments in securities	Foundation funds ( <i>kikin</i> )	Reserve for redemption of foundation funds	
① Equity (p. 31)		●	●	●	●	●	
② Policy reserves (p. 31)	●	●					
③ Unrealized gain on securities (p. 31)							●
Total solvency margin		●	●	●	●	●	●
④ Solvency margin ratio (p. 32) = Total solvency margin / (total amount of risk × 1/2) × 100							
⑤ Real net assets (p. 32)		●		●	●	●	●

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

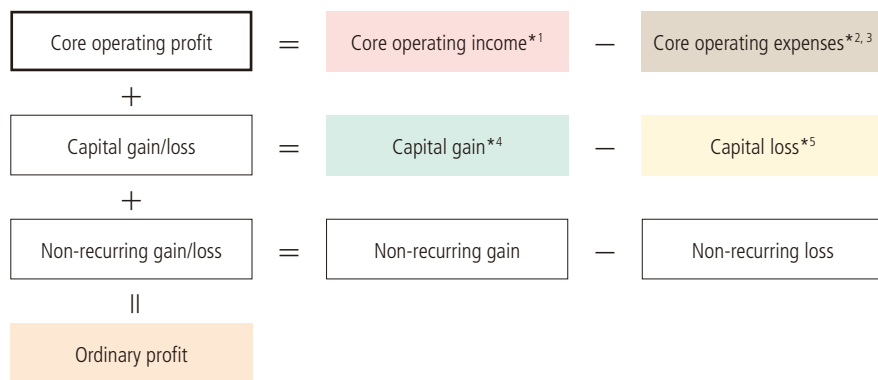
\*Equity and reserves, real net assets and others are not shown directly on the balance sheets.

Statements of Income	
Ordinary income	
Revenue from insurance and reinsurance	
Investment income	
Interest, dividends and other income	
Gain on sales of securities	
Gain from separate accounts, net	
Other ordinary income	
Ordinary expenses	
Benefit and other payments	
Provision for policy reserves	
Investment expenses	
Loss on sales of securities	
Loss on valuation of securities	
Loss from separate accounts, net	
Operating expenses	
Other ordinary expenses	
Ordinary profit	
Extraordinary gains (losses)	
Net surplus	

### ⑥ Core operating profit

\*Please refer to p. 33 for more details regarding core operating profit.

\*Core operating profit is not shown directly on the statements of income.



\*1 Core operating income = Revenue from insurance and reinsurance + investment income (excluding gain on sales of securities, etc.) + other ordinary income

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

\*3 Provision for policy reserves within core operating expenses excludes provisions (reversals) 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.

## Building a Firm Financial Foundation in Equity

### Equity

**¥3,122.9 billion**

as of March 31, 2013

(Including foundation funds (*kikin*) and reserves of ¥2,965.9 billion)  
(¥2,824.1 billion as of March 31, 2012)

Equity is the sum of foundation funds (*kikin*), reserves and other items (foundation funds and the reserve for redemption of foundation funds, which are included in net assets on the balance sheets, and the contingency reserve and reserve for price fluctuations in investments in securities, which are included in liabilities on the balance sheets), and subordinated debt.

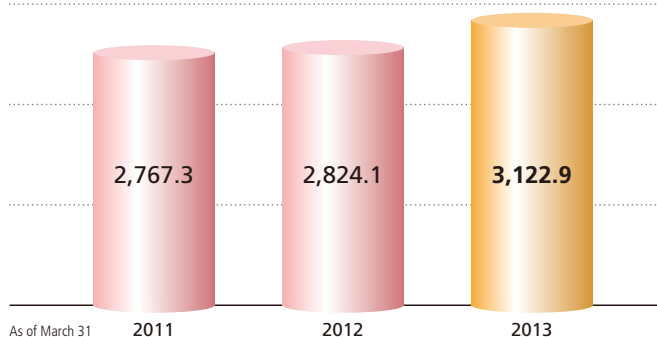
Nippon Life works to build up equity. This equity is a financial resource for responding to risks that do not include unrealized gain on securities, which is easily affected by the economic environment. More specifically, even if management risks such as a massive natural disaster or dramatic decline in stock prices 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.

Equity was ¥3,122.9 billion as of March 31, 2013 as Nippon Life maintained a high level of equity in order to ensure financial soundness.

### [Trends in Equity]

(Unit: Billions of Yen)



## Sufficient Policy Reserves

### Policy Reserves

**¥46,161.2 billion**

as of March 31, 2013

(¥44,448.0 billion as of March 31, 2012)

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. 169).

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 p. 169 and 170).

To ensure the greater financial soundness of individual annuities, we built up policy reserves over a five-year period that began in the fiscal year ended March 31, 2007.

## Unrealized Gain on Securities

### Unrealized Gain on Securities

**¥5,725.0 billion**

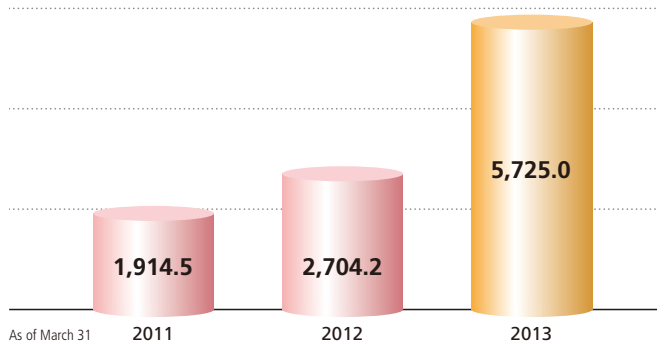
as of March 31, 2013

(¥2,704.2 billion as of March 31, 2012)

Unrealized gain on securities indicates the positive difference that exists when the market value of securities exceeds the book value. Unrealized gain on securities, although affected by economic conditions, is one of the indicators for preparing against risk (see p. 152 and 153).

### [Trends in Unrealized Gain on Securities]

(Unit: Billions of Yen)



## High-level Solvency Margin Ratio to Respond to Unforeseeable Risks

### Solvency Margin Ratio

# 696.4%

as of March 31, 2013

(567.0% as of March 31, 2012)

The solvency margin ratio is the total value of the solvency margin (equity plus 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, 2013 was 696.4%, which ensures a high level of preparedness for paying benefits with sufficient surplus capacity to fully cover risk (see p. 148 and 149).

### [Solvency Margin Ratio]

(Unit: Billions of Yen, %)

As of March 31, 2013		
Total solvency margin	(A)	¥8,027.1
Foundation funds ( <i>kikin</i> ) and reserves		3,122.9
Unrealized gain/loss on available-for-sale securities × 90%		3,278.3
Total amount of risk	(B)	2,305.2
Solvency margin ratio	$\frac{(A)}{(1/2) \times (B)} \times 100$	696.4%

\*In accordance with Cabinet Office Ordinance No. 23 of 2010 and Financial Services Agency Public Notice No. 48 of 2010, part of the calculation standard for the solvency margin gross amount and the total amount of risk has been changed (tightening of margin calculations, tightening and refining of risk measurements, etc.).

## High Level of Real Net Assets

### Real Net Assets

# ¥10,259.2 billion

as of March 31, 2013

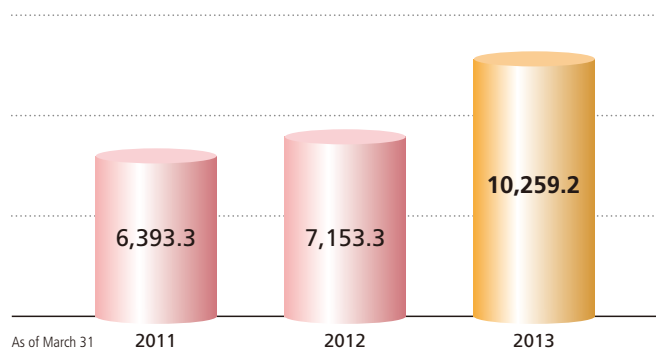
(¥7,153.3 billion as of March 31, 2012)

Real net assets are calculated by subtracting total liabilities, other than contingency reserves and other liability items highly 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 in real terms, and an insurance company may be subject to an order by the regulatory agency to suspend business.

Real net assets as of March 31, 2013 stood at ¥10,259.2 billion and the ratio of real net assets (the ratio to general account assets) was 19.1%, ensuring that a high level is continuously maintained.

### [Trends in Real Net Assets]

(Unit: Billions of Yen)



## High Level of Core Operating Profit

### Core Operating Profit

**¥546.5 billion**

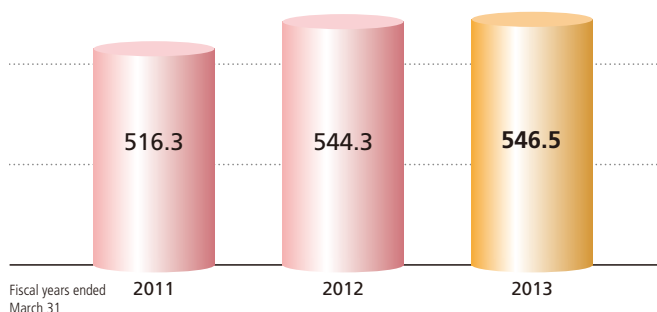
for the fiscal year ended March 31, 2013

(¥544.3 billion for the fiscal year ended March 31, 2012)

Core operating profit 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. For the fiscal year ended March 31, 2013, core operating profit stood at ¥546.5 billion, remaining at a high level (see p. 154).

### [Trends in Core Operating Profit]

(Unit: Billions of Yen)



### 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 accounts for the fiscal year ended March 31, 2013, Nippon Life recorded no negative spread for the third consecutive year since the fiscal year ended March 31, 2011.

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 negative spread, 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 equity 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:

$$\text{Negative spread} = [\text{investment return on core operating profit} - \text{average assumed interest rate}] \times \text{general account policy reserves}$$

- The investment return on core operating profit 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 core operating profit.
- 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

### Ratings (as of July 1, 2013)

**AA**

R&I

(Insurance Claims Paying Ability)

**A+**

S&P

(Insurer Financial Strength Rating)

**Aa3**

Moody's

(Insurance Financial Strength Ratings)

### Ranking Standard

AAA
AA
A
BBB
BB
B

⋮

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

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

<http://www.r-i.co.jp/eng/>

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 "A" Rating

<http://www.standardandpoors.com>

Strong capacity to fulfill insurance policy obligations; but compared with the top "AAA" rating, the "AA" rating is somewhat susceptible to adverse economic conditions and changes in circumstances.

### Moody's Definition of "Aa" Rating

<http://www.moody.com/>

Obligations rated "Aa" are judged to be of high quality and are subject to very low credit risk.

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 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 ratings from R&I, S&P, and Moody's after officially requesting them and providing detailed information for more accurate evaluation.
- \* Plus (+) or minus (-) signs following the ratings show relative standing within the major rating categories.

# Fiscal Year Ended March 31, 2013 Business Overview and Performance

## General Overview

In the fiscal year ended March 31, 2013, the Japanese economy was lackluster due mainly to slowing global economic growth while the outlook remained uncertain because of the European debt crisis and other events. However, there was an upturn in the economy in the second half as corporate earnings began to improve.

During the fiscal year under review, Nippon Life concentrated on the theme of "Return to Growth" by implementing the Future Creation Project. This project is a three-year management plan that started in April 2012 and is a key element of the New Integration Strategy. In its first year, the project produced a number of accomplishments. For example, in the individual market, we increased sales of new policies and stopped the decline in the number of policies in force. But we believe that even more work will be needed to reach the goals of the Future Creation Project. Core operating

profit increased mainly because higher interest and dividend income more than offset the effect of the continued decline in the amount of policies in force. To strengthen its equity\*, Nippon Life continued to increase foundation funds (*kikin*) and reserves and issued subordinated notes.

In Japan, there is currently significant volatility in stock prices, the value of the yen and interest rates because of the government's economic and monetary measures. We will take a number of actions as we monitor how the changes in our operating environment influence sales of policies, returns on our investments, financial soundness and other items.

\*Nippon Life calculates its equity as the sum of foundation funds (*kikin*) and reserves (including foundation funds (*kikin*), which are equivalent to the capital of a joint-stock company, the contingency reserve and reserve for price fluctuations in investments in securities, which are established for the corresponding risks) and subordinated debt.

## Individual Market Sales Field

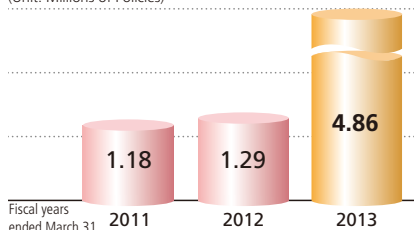
### ● New Policies

#### Number of Policies Sold

For the fiscal year ended March 31, 2013

# 4.86 million

(Unit: Millions of Policies)

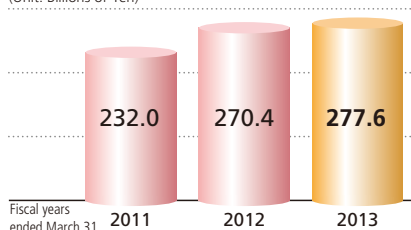


#### Annualized Premiums on New Policies

For the fiscal year ended March 31, 2013

# ¥277.6 billion

(Unit: Billions of Yen)

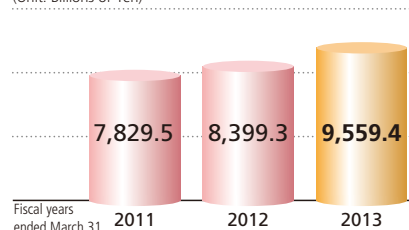


#### Amount of New Policies

For the fiscal year ended March 31, 2013

# ¥9,559.4 billion

(Unit: Billions of Yen)



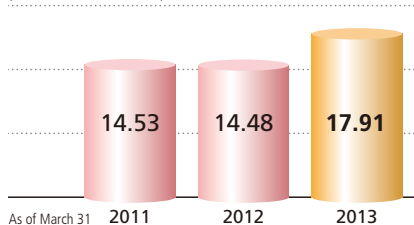
### ● Policies in Force

#### Number of Policies in Force

As of March 31, 2013

# 17.91 million

(Unit: Millions of Policies)

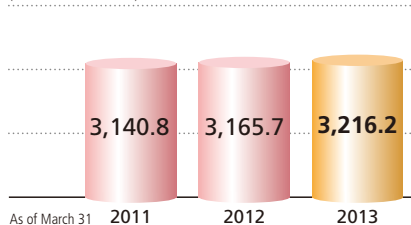


#### Annualized Premiums for Policies in Force

As of March 31, 2013

# ¥3,216.2 billion

(Unit: Billions of Yen)

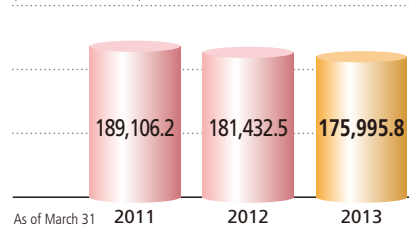


#### Amount of Policies in Force

As of March 31, 2013

# ¥175,995.8 billion

(Unit: Billions of Yen)



- Notes:
- Number of policies sold represents the total of new policies and policies after conversions.
  - 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.)
  - Amount of annualized premiums on new policies which includes net increase due to conversions.
  - 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).
  - Starting in the fiscal year ended March 31, 2013, each policy is counted separately for insurance products that combine two or more policies. If these multiple-policy products had been counted as single policies as in prior fiscal years, the number of policies sold in the fiscal year ended March 31, 2013 would have been 1.40 million, 8.2% higher than in the previous fiscal year.

The amount of new policies increased 13.8% to ¥9,559.4 billion and the number of new policies sold increased 275.4%\*<sup>1</sup> to 4.86 million. Annualized net premiums on new premiums also increased, climbing 2.7% to ¥277.6 billion. This performance was attributable to measures to increase sales of *Mirai no Katachi*, which allows customers to select the protection they want and has clearly defined benefit payment terms, and *My Stage*, a single-payment whole life insurance policy that targets inheritance-related needs.

The policy retention rate after one year\*<sup>2</sup> was 93.6%, an increase of 0.0 of a percentage point from the previous fiscal year, as we maintained our recently improved level of retention.

Turning to policies in force, annualized premiums on March 31, 2013 had continued to rise, this year by 1.6% year on year to ¥3,216.2 billion, and the number of policies in force had turned around from its recent decline to increase by 23.6% year on year to 17.91 million\*<sup>1</sup>. However the amount of policies in force had decreased by 3.0% year on year to ¥175,995.8 billion. When stated in terms of the pre-fiscal 2012 system of counting products that combine multiple policies as a single policy, the number of policies in force would have been 14.5 million, a positive turnaround of 0.1% year on year. This is due to an 8.2% year-on-year increase in the number of new policies to 1.4 million.

The number of registered sales representatives\*<sup>3</sup> on March 31, 2013 had increased by only 256 from the previous fiscal year-end to 47,506. Moreover, core personnel with notably strong sales and service capabilities had increased by 636 from the previous fiscal year to 9,481.

In the agency channel, the number of agencies on March 31, 2013 had increased by 599 from the previous fiscal year-end to 11,311\*<sup>4</sup>, with a corresponding increase in the number of new policies.

In the bank assurance channel, premium income for the fiscal year decreased 22.7% year on year to ¥457.1 billion. The decline was attributable to putting the sale of some products on hold amid ongoing low interest rates. The effect of this outweighed efforts to expand sales of the single-payment whole life insurance policy *Yume No Katachi*, which is designed to meet customers' needs involving inheritance and other matters.

\*<sup>1</sup> Starting in April 2012, each policy is counted separately for insurance products that combine two or more policies.

\*<sup>2</sup> The retention rate refers to the ratio of policies that are continued after a certain period without being cancelled. This metric is used to indicate the quality of new policies. The retention rate mentioned in this report is calculated from the policy amount.

\*<sup>3</sup> The number of registered sales representatives does not include sales management or part-time sales staff.

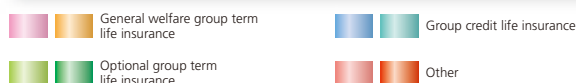
\*<sup>4</sup> Sales agencies do not include banks or financial institutions that perform agency sales.

## Corporate Market Sales Field

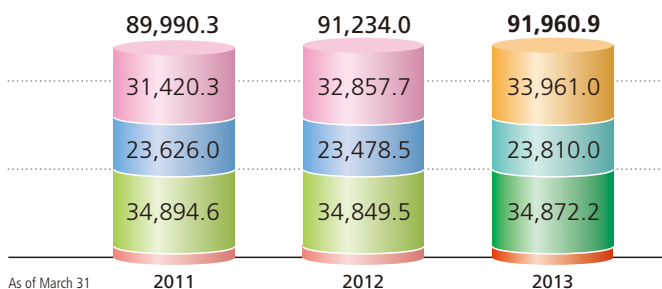
### Amount of Group Insurance Policies in Force

As of March 31, 2013

**¥91,960.9 billion**



(Unit: Billions of Yen)



In the corporate market, group insurance policies in force as of March 31, 2013 had increased 0.8% year on year to ¥91,960.9 billion. This growth was driven by consulting services that matched the needs of companies. Meanwhile, group annuity assets increased 4.1% year on year to ¥10,911.5 billion. Including Nissay Asset Management and other Nippon Life Group

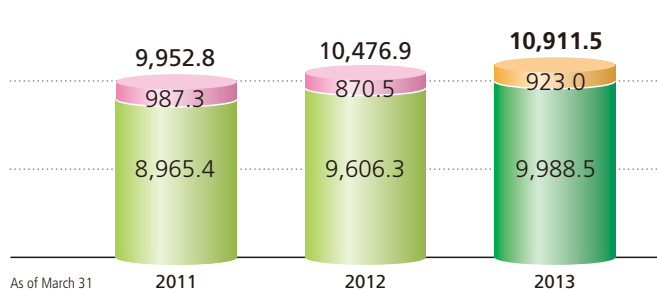
### Amount of Group Annuities in Force (Policy Reserves Amount\*)

As of March 31, 2013

**¥10,911.5 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.

companies, group annuity assets for the entire Nippon Life Group increased 5.4% year on year to ¥12,545.6 billion. We will promote consulting activities relating to employee benefit and welfare programs in general that closely match corporate customers' needs.

## The Fiscal Year Ended March 31, 2013 Total Payments of Death and Other Claims, Annuity Payments, Health and Other Benefits

Total payments of Death and Other Claims, Annuity Payments, Health and Other Benefits (total for individuals and companies) were ¥2,574.0 billion in the fiscal year ended March 31, 2013. (The total number of payments stood at 11,364,000.) Nippon Life is committed to continuing to make payments with speed and reliability.



## Investment Field

In the fiscal year ended March 31, 2013, the investment climate was challenging. Stock prices started to recover late in 2012 and the yen weakened, but interest rates remained low throughout the fiscal year.

In this difficult environment, we maintained a positive spread just as in the previous fiscal year. Interest, dividends, and other income increased 1.6% to ¥1,217.0 billion due in part to the timely replacement of domestic and foreign bonds and growth in bond holdings. There was an overall capital loss of ¥153.8 billion, ¥40.1 billion more than in the previous fiscal year. Gains on sales of foreign securities increased because of the weaker yen. However, there was an increase in expenses for responding to the large movements in foreign exchange rates. In addition, we recorded loss on valuation of securities on Japanese stocks primarily because of price movements of individual stocks.

### [Main Investment-Related Revenues and Expenditures]

(Unit: Billions of Yen, %)

Fiscal years ended March 31	2013	Rate of increase	2012	2011
Investment income	¥1,560.8	6.9%	¥1,459.9	¥1,538.3
Interest, dividends, and other income	1,217.0	1.6	1,198.1	1,204.6
Gain on sales of securities	192.3	(17.8)	233.9	330.8
Gain from separate accounts, net	144.6	675.8	18.6	—
Investment expenses	428.1	3.3	414.4	535.9
Loss on sales of securities	72.0	(53.2)	154.0	253.0
Loss on valuation of securities	98.6	236.0	29.3	140.2
Loss from separate accounts, net	—	—	—	34.8
Net proceeds from investments	1,132.7	8.3	1,045.4	1,002.4
Proceeds from investments in the general account	988.1	(3.8)	1,026.8	1,037.2

Note: Aggregate investment income and investment expenses in the separate accounts are included in either gain or loss from separate accounts, net.

## Administrative Operations, IT Systems and Customer Services

Nippon Life made a problem-free transition in April 2012 to an IT system that can support the New Integration Strategy. More time was needed to start using new administrative processes, REVO wireless devices and other elements of this strategy. However, there was progress during the fiscal year with improvements that reflected input from customers and sales representatives.

To upgrade customer services, we are shifting to a new branch operating framework as part of the New Integration Strategy. One aspect of this transition is the ongoing reassignment of personnel engaged in insurance administrative operations to positions where they interact with customers. We will continue to focus on Policy Details Confirmation Activities, consulting when policies are renewed or have matured, and other policyholder services.

## Overseas Operations and Alliances

In August 2012, Nippon Life invested in Reliance Capital Asset Management Limited, an asset management arm of Reliance Group in India. In addition we agreed to acquire a minority stake in Post Advisory Group, LLD, an asset management company of the leading U.S. financial group Principle Financial Group in March 2013. We will use our network of affiliations throughout Europe, the U.S. and Asia to expand our personnel assignments as part of our

effort to utilize our know-how, and to cultivate global awareness, especially among our younger employees.

We will continue to build relationships of trust with leading companies in each country, and expand our network in the insurance and asset management businesses through cooperation, personnel exchange, and other measures.



## Revenues and Expenditures and Financial Condition

Core operating profit in the year ended March 31, 2013 increased 0.4% to ¥546.5 billion. The continuing decline in the amount of policies in force and higher depreciation expenses associated with the start of the new IT system negatively affected this profit. But this was offset by higher interest, dividends and other income, and lower operating expenses and other items.

Foundation funds (*kikin*) and reserves totaled ¥2,965.9 billion, ¥141.8 billion more than at the end of the previous fiscal year. One reason was the soliciting of an additional ¥50 billion of foundation funds (*kikin*) in August 2012. In October 2012, Nippon Life conducted its first issue of U.S. dollar-denominated subordinated notes. After adding the U.S.\$2 billion (¥157 billion) proceeds from these notes to foundation funds (*kikin*) and reserves, equity was ¥3,122.9 billion, ¥298.8 billion more than at the end of the previous fiscal year.

With respect to dividends paid on insurance policies, we plan to maintain dividends at the prior-year level for individual and group policies. Although interest rates have declined even further, we have continued to take actions such as increasing equity for maintaining stable dividends. In addition, we paid dividends on group annuities as dictated by the relevant rules.

### [Equity Replacement Ratio]

(Unit: Billions of Yen, %)

As of March 31	2013	Amount of increase	2012	2011
Foundation funds ( <i>kikin</i> ) and reserves	¥2,965.9	¥141.8	¥2,824.1	¥2,767.3
Net assets	1,430.4	58.7	1,371.6	1,268.0
Liabilities	1,535.4	83.0	1,452.4	1,499.2
Contingency reserve	780.1	4.5	775.6	821.7
Reserve for price fluctuations in investments in securities	¥ 427.5	¥ 93.8	¥ 333.7	¥ 347.0
Subordinated bonds	¥ 157.0	¥157.0	—	—
Equity	¥3,122.9	¥298.8	¥2,824.1	¥2,767.3
Equity replacement ratio	69%	—	63%	61%

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 and subordinated debt divided by the required level of optimum equity (¥4.6 trillion at the end of March 2013, ¥4.5 trillion at the end of March 2012 and 2011 respectively), 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	2013	Amount of increase	2012	2011
Provision for reserve for policyholder dividends ①	¥167.1	¥ (0.1)	¥167.3	¥175.5
Increased amount of foundation funds ( <i>kikin</i> ) and reserves	141.8	135.0	6.7	—
Total ②	¥309.0	¥134.9	¥174.0	¥175.5
Dividend payout ratio ①/②	54%	—	96%	100%

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).

### [Ordinary Profit]

(Unit: Billions of Yen, %)

Fiscal years ended March 31	2013	Rate of increase	2012	2011
Core operating profit	¥ 546.5	0.4 %	¥ 544.3	¥ 516.3
Capital gain/loss	(153.8)	—	(113.7)	(97.8)
Non-recurring gain/loss	(3.9)	—	51.0	(187.3)
Ordinary profit	¥ 388.7	(19.3)%	¥ 481.5	¥ 231.0

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

## Risk Management and Compliance

Nippon Life performs risk management in a manner that reflects the characteristics of each type of risk associated with underwriting, asset management, administrative operations, IT systems and other items. These activities help enable us to fulfill our responsibility to be a source of long-term security for policyholders. Due to the challenging investment climate, we performed extensive risk management for asset management operations. In addition to monitoring these operations closely, we have prepared specific responses for a variety of scenarios and taken other actions. Nippon Life will continue to make its integrated risk management system even more advanced. Measures

to accomplish this include identifying risks in a more all-inclusive and systematic manner and performing risk management that reflects the relationship between earnings and risk.

Regarding compliance, we took actions in accordance with the New Integration Strategy involving procedures for new enrollments and other tasks. The objective is to further instill compliance in everyday operations. We will continue to conduct a rigorous compliance program that includes verifying the effectiveness of our activities and reexamining compliance issues.

## Main Balance Sheet Items (Nonconsolidated Basis)

(Unit: Billions of Yen)

As of March 31	2013
<b>Total assets</b>	<b>¥54,882.8</b>
Cash and deposits	502.9
Call loans	203.9
Receivables under securities borrowing transactions	150.7
Monetary receivables purchased	756.3
<b>Investments in securities:</b>	<b>42,274.1</b>
Domestic bonds	21,222.2
Domestic stocks	6,917.4
Foreign securities	13,556.5
<b>Loans:</b>	<b>8,581.8</b>
Policy loans	835.4
Industrial and consumer loans	7,746.3
<b>Tangible fixed assets</b>	<b>1,676.3</b>
<b>Intangible fixed assets</b>	<b>184.9</b>
Reinsurance receivables	0.2
Other assets	530.8
Customers' liability for acceptances and guarantees	29.2
Allowance for doubtful accounts	(8.7)
<b>Total liabilities</b>	<b>50,932.1</b>
<b>Policy reserves and other reserves:</b>	<b>47,470.2</b>
Reserve for outstanding claims	203.8
Policy reserves	46,161.2
Reserve for dividends to policyholders	1,105.0
Reinsurance payables	0.2
Corporate bonds	157.0
Other liabilities	2,147.9
Accrued bonuses for directors and corporate auditors	0.0
Accrued retirement benefits	433.1
Accrued retirement benefits for directors and corporate auditors	4.3
Reserve for program points	9.5
Reserve for price fluctuations in investments in securities	427.5
Deferred tax liabilities	123.6
Deferred tax liabilities for land revaluation	129.1
Acceptances and guarantees	29.2
<b>Total net assets</b>	<b>3,950.6</b>
<b>Foundation funds (<i>kikin</i>) ①</b>	<b>300.0</b>
<b>Reserve for redemption of foundation funds ②</b>	<b>950.0</b>
<b>Reserve for revaluation ③</b>	<b>0.6</b>
<b>Total surplus ④:</b>	<b>350.5</b>
Legal reserve for deficiencies	12.5
Other surplus reserves	338.0
Unappropriated surplus	231.0
<b>Total foundation funds and others (=①+②+③+④)</b>	<b>1,601.2</b>
<b>Net unrealized gains on available-for-sale securities, net of tax ⑤</b>	<b>2,508.0</b>
<b>Deferred losses on derivatives under hedge accounting, net of tax ⑥</b>	<b>(74.1)</b>
<b>Land revaluation differences ⑦</b>	<b>(84.4)</b>
<b>Total valuations, conversions, and others (=⑤+⑥+⑦)</b>	<b>2,349.4</b>
<b>Total liabilities and net assets</b>	<b>54,882.8</b>

### Total Assets

Total assets as of March 31, 2013 were ¥54,882.8 billion, with total general and separate account assets of ¥53,644.0 billion and ¥1,238.8 billion, respectively.

### 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 stable yen-denominated return. Also, within the range of allowable risks, Nippon Life invests in domestic stocks, foreign securities and other securities. As of March 31, 2013, total investments in securities amounted to ¥42,274.1 billion.

Nippon Life records the difference between the market value and book value of available-for-sale securities, when the difference is positive, as net unrealized gains on available-for-sale securities, net of tax. As of March 31, 2013, net unrealized gains on available-for-sale securities, net of tax, was ¥5,725.0 billion.

### Loans

Loans 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 stood at ¥8,581.8 billion as of March 31, 2013.

### Tangible Fixed Assets

Tangible fixed assets include land, buildings, lease assets, construction in progress and movables. As of March 31, 2013, the balance amounted to ¥1,676.3 billion.

### 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. As of March 31, 2013, policy reserves stood at ¥46,161.2 billion.

### Reserve for Price Fluctuations in Investments in Securities

Reserve for price fluctuations in investments in securities are accumulated in accordance with the Insurance Business Act to cover losses caused by a future decrease in prices of assets whose value is likely to fluctuate, such as stocks. As of March 31, 2013, the reserve for price fluctuations in investments in securities stood at ¥427.5 billion.

### 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 to mutual companies and corresponding to the capital of joint stock companies. Meanwhile, the Act 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.

As of March 31, 2013, Nippon Life redeemed ¥50.0 billion in foundation funds (*kikin*) that it had solicited and newly solicited ¥50.0 billion. As a result, foundation funds (*kikin*) and reserve for redemption of foundation funds amounted to ¥300.0 billion and ¥950.0 billion, respectively.

## Main Items in Statement of Income (Nonconsolidated Basis)

(Unit: Billions of Yen)

Fiscal year ended March 31	2013
<b>① Ordinary income:</b>	<b>¥7,094.2</b>
<b>Revenues from insurance and reinsurance:</b>	<b>5,342.8</b>
Insurance premiums	5,342.0
<b>Investment income:</b>	<b>1,560.8</b>
Interest, dividends, and other income	1,217.0
Gain on sales of securities	192.3
<b>Other ordinary income</b>	<b>190.4</b>
<b>② Ordinary expenses:</b>	<b>6,705.4</b>
<b>Benefits and other payments:</b>	<b>3,617.1</b>
Death and other claims	1,059.7
Annuity payments	686.2
Health and other benefits	828.0
Surrender benefits	834.4
Other refunds	207.3
<b>Provision for policy reserves:</b>	<b>1,739.0</b>
Provision for policy reserves	1,713.1
Provision for interest on reserve for dividends to policyholders	25.8
<b>Investment expenses:</b>	<b>428.1</b>
Interest expenses	4.7
Loss on sales of securities	72.0
Loss on valuation of securities	98.6
Loss on derivative financial instruments, net	176.6
<b>Operating expenses</b>	<b>566.9</b>
<b>Other ordinary expenses</b>	<b>354.2</b>
<b>③ Ordinary profit (=①-②)</b>	<b>388.7</b>
<b>④ Extraordinary gains:</b>	<b>4.8</b>
Gain on disposals of fixed assets	4.1
Reversal for reserve for loss on disaster	0.3
Other extraordinary gains	0.3
<b>⑤ Extraordinary losses:</b>	<b>146.5</b>
Loss on disposals of fixed assets	31.1
Impairment losses	17.6
Provision for reserve for price fluctuations in investments in securities	93.8
Loss on reduction entry of real estate	2.5
Contributions for assisting social public welfare	1.4
<b>⑥ Extraordinary gains (losses) (=④-⑤)</b>	<b>(141.7)</b>
<b>⑦ Surplus before income taxes (=③+⑥):</b>	<b>247.0</b>
Income taxes, current	66.1
Income taxes, deferred	(29.7)
<b>⑧ Total income taxes</b>	<b>36.4</b>
<b>⑨ Net surplus (=⑦-⑧)</b>	<b>210.6</b>

### Revenues from Insurance and Reinsurance

Comprising insurance and reinsurance premiums paid by policyholders, revenues from insurance and reinsurance for the fiscal year ended March 31, 2013 was ¥5,342.8 billion.

### Investment Income

This includes interest, dividends, and other income as well as gain on sales of securities. For the fiscal year ended March 31, 2013, investment income totaled ¥1,560.8 billion.

### Benefits 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, 2013, benefits and other payments were ¥3,617.1 billion.

### Provision for Policy Reserves

Provision for policy reserves, which are reserves shown on the balance sheets, is recorded on the statements of income. For the fiscal year ended March 31, 2013, provision for policy reserves totaled ¥1,713.1 billion.

### Investment Expenses

These are expenses including loss on sales of securities and loss on valuation of securities and others. For the fiscal year ended March 31, 2013, investment expenses amounted to ¥428.1 billion.

### Provision for Reserve for Price Fluctuations in Investments in Securities

The provision for reserve for price fluctuations in investments in securities, which is a reserve shown on the balance sheet, is recorded on the statement of income. For the fiscal year ended March 31, 2013, provision for reserve for price fluctuations in investments in securities totaled ¥93.8 billion.

### Net Surplus

This item represents ordinary profit after accounting for extraordinary gains and losses, income taxes and other items. The net surplus for the fiscal year ended March 31, 2013 totaled ¥210.6 billion.

## Management Policy Ahead

As the second year of the three-year Future Creation Project, the fiscal year ending in March 2014 is a period for starting the full-scale execution of the New Integration Strategy. The aim is to set the stage for reaching the goals of this three-year management plan. We will also build an even stronger base for financial soundness and profitability.

### Increasing Sales—Providing Comprehensive Insurance Services Tailored to Individual Customers' Needs

The new REVO wireless devices allow us to create highly detailed plans with *Mirai no Katachi*, a sophisticated and flexible insurance product. We are using this product together with REVO to promote our business activity innovation drive, which aims to raise the quantity and quality of sales representative consultations.

We are using the introduction of a new product\*<sup>1</sup> in April 2013 to reinforce our strategies for specific customer segments. One example is the use of *Educational Endowment Insurance* and our *Childraising Advice Hotline*\*<sup>2</sup>, a new service for policyholders, to approach young people with small children. These are the customers who need coverage the most. We will focus on increasing sales of protection products, chiefly policies with survival benefits.

Increasing measures to develop markets by integrating many channels is another goal. We want to combine sales representatives, our main channel, with Life Plazas, agencies, bank assurance channels and many other channels. For example, sales representatives located mainly in large cities can work with corporate sales representatives to cultivate the worksite market. Plans also include increasing sales of *Educational Endowment Insurance* by linking the Internet channel with the Life Plaza and other face-to-face sales channels. In addition, we will focus on establishing relationships with small and medium-sized enterprises by using the agency channel to sell long-term term life insurance.

Through these initiatives, we will increase sales of new policies and the number of customers without any decline in the quality of our policies.

\*<sup>1</sup> In April 2013 we launched *Nissay Educational Endowment Insurance*, *Nissay Long-term Term Life Insurance with Low Surrender Benefits Next Road*, and *Nissay Variable Interest Rate Single-payment Increasing-coverage Whole Life Insurance Yume no Katachi Plus*.

\*<sup>2</sup> This hotline was added on March 25, 2013 as another component of the *Zutto Motto Service* for policyholders. The hotline offers policyholders around-the-clock counseling with specialists about the health and care of children.

### Strengthen Financial Soundness and Profitability—Making Nippon Life Even More Reliable

Stock prices in Japan are currently climbing as the yen weakens. However, interest rates are still at a historic low and there has been significant volatility in stock and foreign exchange markets in recent years. As a result, Nippon Life recognizes the need to further strengthen its financial position and profitability while monitoring conditions in financial markets.

For asset management, our goals are to increase our ability to generate income that is stable over the long term and to increase our resilience against various risk factors. To do this, we will assemble a diversified portfolio with the strength to withstand market volatility.

Regarding equity, we will strengthen equity in a balanced manner that reflects the characteristics of foundation funds (*kikin*), reserves and subordinated debt. Our target is to raise foundation funds (*kikin*) and reserves to ¥3 trillion by March 2015.

Through these measures we will ensure that we have the financial soundness to prepare us for any type of risk occurrence. This will enable us to perform our mission as a life insurer: fulfilling our long-term coverage responsibilities to customers.

Accomplishing our goals will require us to become more profitable. We need to increase new policy sales, boost operational efficiency and maintain a steady level of income from our investments. Furthermore, we will build a foundation for earnings growth in the future, such as by expanding overseas and strengthening our asset management business.

### Development of Human Resources—The Cornerstone of Customer Trust

For sales representatives, we will continue using the business activity innovation drive to improve the quantity and quality of consulting services. We want to raise everyone's individual capabilities. "Hatsuratsu Winds" are sales representatives who joined Nippon Life within the past five years and are in the top echelon of performance. For these individuals, we will focus on using worksite activities to train them as the next generation of core employees.

For non-sales personnel, we will use the new branch operations framework to enable these individuals to provide services that cover many customer needs. They will handle a broader range of duties to improve services after individuals enroll in a Nippon Life policy, support sales representatives and perform other jobs. In addition, we are committed to creating a more open corporate culture by making greater use of women and increasing their participation in management. Moreover, we want to incorporate the suggestions of women and young people in management plans and business operations. We believe these measures will help improve customer services as well as our earnings.

Through these initiatives we will achieve the return to growth that is the objective of our Future Creation Project. We will make even further progress on target for all employees of making Nippon Life a company of excellence in "scale," "quality," and "credibility."