

# CHAPTER 1

## Business Performance in the Fiscal Year Ended March 31, 2014

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

(Unit: Billions of Yen or as Noted)

For the years ended March 31	2014	2013	2012
Ordinary income	¥ 6,714.0	¥ 7,094.2	¥ 7,074.9
Ordinary profit	512.6	388.7	481.5
Core operating profit	592.4	546.5	544.3
Net surplus	284.4	210.6	221.8
Dividend reserves as a percentage of surplus available for disposition <sup>1</sup> [%]	98.16%	95.38%	98.27%
Total assets	56,790.7	54,882.8	51,009.4
Separate account assets	1,227.3	1,238.8	1,146.6
Investments in securities	44,369.0	42,274.1	37,522.7
Loans	8,528.9	8,581.8	8,721.6
Policy reserves	47,515.4	46,161.2	44,448.0
Equity <sup>2</sup>	3,579.9	3,122.9	2,824.1
Foundation funds ( <i>kikin</i> ) and reserves	3,422.8	2,965.9	2,824.1
Total foundation funds ( <i>kikin</i> ) <sup>3</sup>	1,250.0	1,250.0	1,200.0
Solvency margin ratio [%]	779.0%	696.4%	567.0%
Policies in force <sup>4</sup>	263,955.0	267,956.7	272,666.5
Individual insurance	150,854.5	156,313.2	162,385.4
Individual annuities	21,041.3	19,682.5	19,047.0
Group insurance	92,059.1	91,960.9	91,234.0
Policies in force for group annuities <sup>5</sup>	11,327.0	10,911.5	10,476.9
Number of customers [number of insured persons, etc.] <sup>6</sup>	11,557,999	11,514,169	11,618,068
Number of customers [number of policyholders, etc.] <sup>7</sup>	9,899,065	9,878,861	9,915,994
Number of company members <sup>8</sup>	9,249,460	9,147,438	9,216,162
Number of employees <sup>9</sup>	70,806	70,004	69,620
Negative spread <sup>10</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. 138).

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. 21).

4. 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.

5. Policies in force for group annuities indicate the amount of policy reserves.

6. 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 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.

7. 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).

8. In the case of a mutual company, "company members" refers to policyholders (excluding non-participating insurance policyholders).

9. 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.

10. In the fiscal year ended March 31, 2014, 2013 and 2012, 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]

(Applicable items are marked with ●)

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. 41)		●	●	●	●	●	
② Policy reserves (p. 41)	●	●					
③ Unrealized gain on securities (p. 41)							●
Total solvency margin		●	●	●	●	●	●
④ Solvency margin ratio (p. 42) = Total solvency margin / (total amount of risk × 1/2) × 100							
⑤ Real net assets (p. 42)		●		●	●	●	●

\*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. 43 for more details regarding core operating profit.

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

Core operating profit	=	Core operating income* <sup>1</sup>	—	Core operating expenses* <sup>2,3</sup>
+				
Capital gain/loss	=	Capital gain* <sup>4</sup>	—	Capital loss* <sup>5</sup>
+				
Non-recurring gain/loss	=	Non-recurring gain	—	Non-recurring loss
Ordinary profit				

\*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

**¥3,579.9 billion**

as of March 31, 2014

(Including foundation funds (*kikin*) and reserves of ¥3,422.8 billion)  
(¥3,122.9 billion as of March 31, 2013)

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.

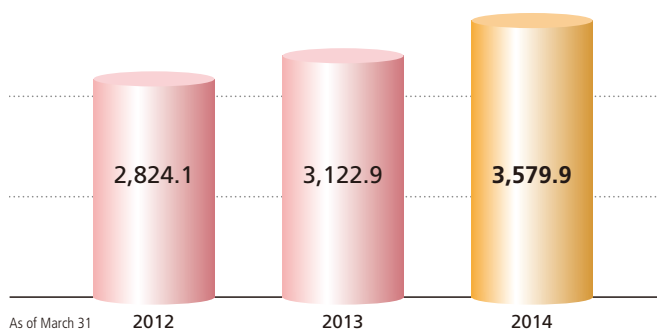
Nippon Life works to build up equity. This equity is a financial resource for responding to risks that do not include unrealized gain on securities, which is easily affected by the economic environment. More specifically, even if management risks such as a massive natural disaster or dramatic decline 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 ¥3,579.9 billion as of March 31, 2014 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

**¥47,515.4 billion**

as of March 31, 2014

(¥46,161.2 billion as of March 31, 2013)

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. 181).

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. 181 and 182).

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

**¥6,515.4 billion**

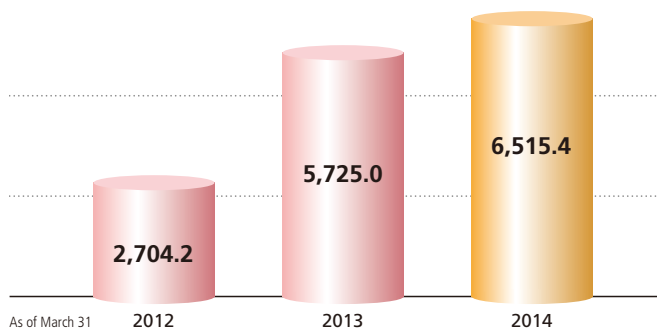
as of March 31, 2014

(¥5,725.0 billion as of March 31, 2013)

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. 163).

### [Trends in Unrealized Gain on Securities]

(Unit: Billions of Yen)



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

### Solvency Margin Ratio

**779.0%**

as of March 31, 2014

(696.4% as of March 31, 2013)

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, 2014 was 779.0%, which ensures a high level of preparedness for paying benefits with sufficient surplus capacity to fully cover risk (see p. 160 and 161).

### [Solvency Margin Ratio]

(Unit: Billions of Yen, %)

As of March 31, 2014		
Total solvency margin	(A)	¥9,437.1
Foundation funds ( <i>kikin</i> ) and reserves		3,579.9
Unrealized gain/loss on available-for-sale securities × 90%		4,221.2
Total amount of risk	(B)	2,422.5
Solvency margin ratio	$\frac{(A)}{(1/2) \times (B)} \times 100$	779.0%

## High Level of Real Net Assets

### Real Net Assets

**¥11,524.1 billion**

as of March 31, 2014

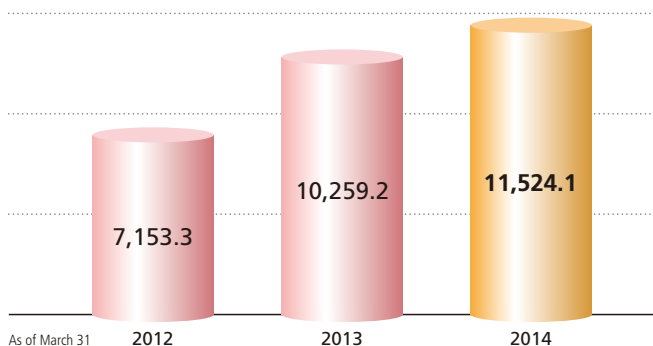
(¥10,259.2 billion as of March 31, 2013)

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, 2014 stood at ¥11,524.1 billion and the ratio of real net assets (the ratio to general account assets) was 20.7%, 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

**¥592.4 billion**

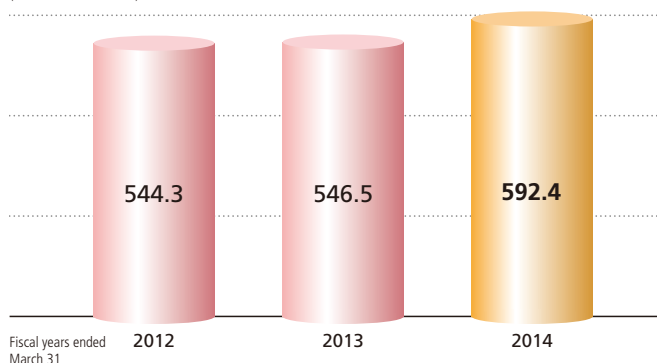
for the fiscal year ended March 31, 2014

(¥546.5 billion for the fiscal year ended March 31, 2013)

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, 2014, core operating profit stood at ¥592.4 billion, remaining at a high level (see p. 47, 166).

### [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, 2014, Nippon Life recorded no negative spread for the fourth 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)  $\times$  1/2

## Excellent Ratings from Ratings Companies

### Ratings (as of July 1, 2014)

**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's.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, 2014 Business Overview and Performance

## General Overview

In the fiscal year ended March 31, 2014, the Japanese economy gradually recovered, as the government's economic stimulus policies and the Bank of Japan's monetary easing set the scene for improved corporate earnings and business conditions and a recovery in capital investment by companies.

During the fiscal year under review, Nippon Life concentrated on the theme of "Return to Growth" under its three-year management plan launched in fiscal 2012, the Future Creation Project. In fiscal 2013, the Company performed well over all, as investment income improved atop higher interest, dividends, and other income, resulting in an increase in core profit.

As a result, we strove to strengthen our equity\* even further by increasing our reserves. Meanwhile, in the individual market, the number of policies in force continued to increase after stopping a declining trend in the previous fiscal year. Nevertheless, net proceeds related to insurance deteriorated as the amount of policies in force declined, and the Company recognizes that it needs to take further action to increase new policy sales.

\* 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

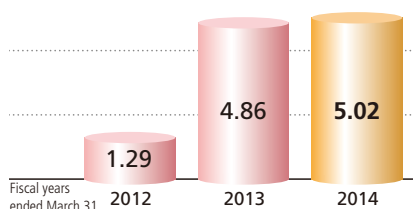
### ● New Policies

#### Number of Policies Sold

For the fiscal year ended March 31, 2014

# 5.02 million

(Unit: Millions of Policies)

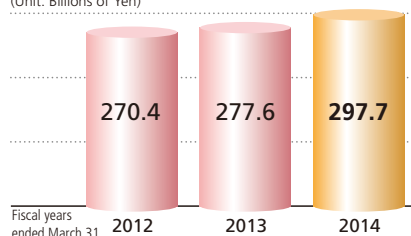


#### Annualized Premiums on New Policies

For the fiscal year ended March 31, 2014

# ¥297.7 billion

(Unit: Billions of Yen)

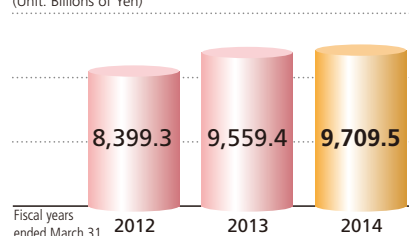


#### Amount of New Policies

For the fiscal year ended March 31, 2014

# ¥9,709.5 billion

(Unit: Billions of Yen)



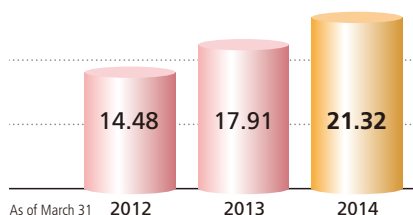
### ● Policies in Force

#### Number of Policies in Force

As of March 31, 2014

# 21.32 million

(Unit: Millions of Policies)

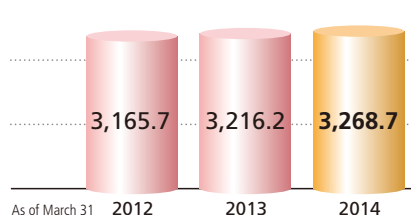


#### Annualized Premiums for Policies in Force

As of March 31, 2014

# ¥3,268.7 billion

(Unit: Billions of Yen)

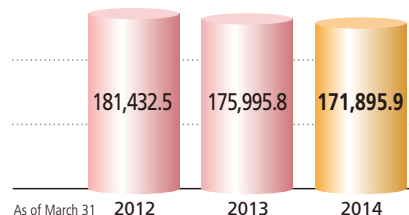


#### Amount of Policies in Force

As of March 31, 2014

# ¥171,895.9 billion

(Unit: Billions of Yen)



- 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 annualized premiums on new policies which 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).
  5. 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 they were prior to March 2012, the number of policies sold in the fiscal year ended March 31, 2014 would have been 1.49 million, 6.8% higher than in the previous fiscal year.

The number of new policies increased 3.2%\*<sup>1</sup> to 5.02 million and the amount of new policies increased 1.6% to ¥9,709.5 billion. Annualized net premiums on new premiums increased 7.3% to ¥297.7 billion. These increases are attributable to aggressive sales activities for *Mirai no Katachi*, and *Nissay Educational Endowment Insurance*, which are now entering their second year.

The policy retention rate after one year\*<sup>2</sup> was 93.8%, an increase of 0.2 of a percentage point from the previous fiscal year, reflecting a steady increase in the quality of new policies.

Turning to policies in force, annualized premiums on March 31, 2014 were up 1.6% from the previous fiscal year end to ¥3,268.7 billion, while the number of policies in force was 21.32 million, up 19.0%\*<sup>1</sup>, continuing to climb for a second consecutive year after turning around in the previous fiscal year. However, the amount of policies in force had decreased by 2.3% to ¥171,895.9 billion.

The number of registered sales representatives\*<sup>3</sup> on March 31, 2014 had increased by only 667 from the previous fiscal year-end to 48,173. Moreover, core personnel with notably strong sales and service capabilities had increased by 477 from the previous fiscal year to 9,958.

In the agency channel, the number of agencies on March 31, 2014 had increased by 778 from the previous fiscal year-end to 12,089\*<sup>4</sup>, while the amount of new policies also increased 6.1% year on year to ¥606.0 billion.

In the bank assurance channel, premium income for the fiscal year decreased 2.1% year on year to ¥444.5 billion. The decline was attributable to adverse market conditions such as ongoing low interest rates, which outweighed aggressive efforts to expand sales of the revised single payment whole life insurance policy *Yume No Katachi Plus*.

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

If products that combine several insurance policies were presented as one item, as they were prior to March 2012, the total number of individual insurance policies sold for the fiscal year under review would be 1.49 million, up 6.8% year on year, and the number of policies in force would be 14.71 million, up 1.5% year on year.

\*<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.

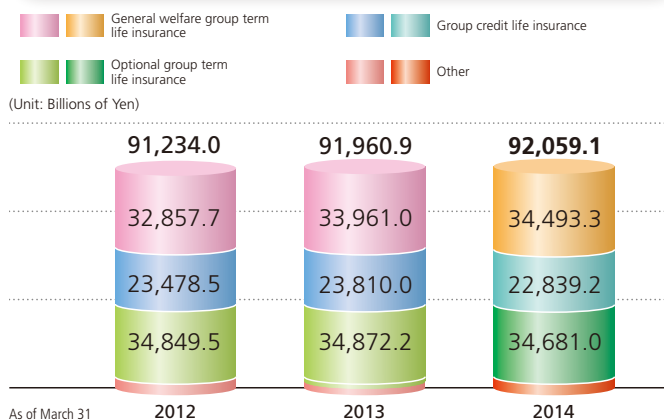
\*<sup>4</sup> Sales agencies do not include banks or financial institutions that perform agency sales.

## Corporate Market Sales Field

### Amount of Group Insurance Policies in Force

As of March 31, 2014

**¥92,059.1 billion**

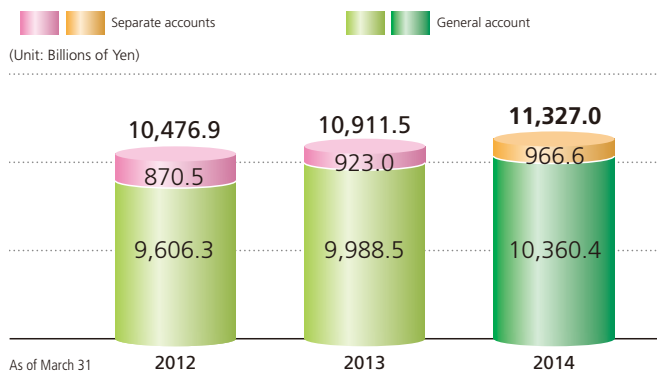


As of March 31

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

As of March 31, 2014

**¥11,327.0 billion**



As of March 31

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

In the corporate market, group insurance policies in force as of March 31, 2014 had increased 0.1% year on year to ¥92,059.1 billion. This growth was driven by consulting services that matched the needs of companies. Meanwhile, group annuity assets increased 3.8% year on year to ¥11,327.0 billion. Including Nissay Asset Management and other Nippon Life Group

companies, group annuity assets for the entire Nippon Life Group increased 5.4% year on year to ¥13,223.8 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, 2014 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 ¥2,644.1 billion in the fiscal year ended March 31, 2014. (The total number of payments stood at 12,218,000.) Nippon Life is committed to continuing to make payments with speed and reliability.



## Investment Field

The investment environment showed signs of improvement in fiscal 2013, with increases in stock prices and a depreciation of the yen. However, interest rates remained low, and these are the most important indicator for Nippon Life because its portfolio is centered on yen-denominated interest assets.

In this environment, we increased our positive spread to achieve interest, dividends and other income of ¥1,296.6 billion, up 6.5% year on year. The main factors in the increase included higher dividends on domestic stocks, timely replacement of domestic and foreign bonds, and the yen's depreciation.

## [Main Investment-Related Revenues and Expenditures]

Fiscal years ended March 31	(Unit: Billions of Yen, %)		
	2014	2013	2012
Investment income	¥1,683.7	¥1,560.8	¥1,459.9
Interest, dividends, and other income	1,296.6	1,217.0	1,198.1
Gain on sales of securities	260.4	192.3	233.9
Gain from separate accounts, net	122.6	144.6	18.6
Investment expenses	186.3	428.1	414.4
Loss on sales of securities	57.7	72.0	154.0
Loss on valuation of securities	22.2	98.6	29.3
Net proceeds from investments	1,497.4	1,132.7	1,045.4
Proceeds from investments in the general account	1,374.8	988.1	1,026.8

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

As part of the New Integration Strategy, we are taking steps to bolster our customer service systems and improve productivity. To this end, we revised several of our operation processes and worked to firmly establish the newly built operations framework at branches throughout Japan. At the same time, we promoted the use of REVO wireless devices and took other steps to enhance the quality of our administrative processes.

In Group insurance, we also developed a service for carrying out procedures over the Internet in order to enhance convenience. As a result, our documentation and other dealings with Group customers can now be processed swiftly on the Internet.

## Overseas Operations and Alliances

In May 2013, we invested in Post Advisory Group, LLC, an asset management company of the leading U.S. financial group Principle Financial Group.

Moreover, in Asia, where many Japanese companies are now expanding their operations, we provide an employee benefit service for local Japanese companies in collaboration with AIA Group Limited, a leading life insurance group. In fiscal 2013, we expanded this service from Taiwan into Hong Kong and Singapore.

In May 2014, we reached an agreement with Indonesian company PT Gunung Sewu Kencana (GSK) on investing in its life insurance subsidiary PT Asuransi Jiwa Sequis Life.

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 increased 8.4% year on year to ¥592.4 billion, mainly on an increase in net proceeds from investments atop higher interest dividends and other income, although net proceeds related to insurance deteriorated, mainly due to a continued decline in the amount of policies in force. Capital gain was ¥145.6 billion, a change of ¥299.5 billion from capital loss in the previous fiscal year.

Foundation funds (*kikin*) and reserves totaled ¥3,422.8 billion after accumulating further reserves, exceeding the target level of ¥3 trillion under the Future Creation Project. After adding subordinated bonds to this amount, equity on March 31, 2014 stood at ¥3,579.9 billion, ¥456.9 billion more than at the end of the previous fiscal year.

With respect to dividends paid on insurance policies, we decided to pay the same level of dividend as in fiscal 2012 for both individual and group policies, given the continuing low interest rates. Meanwhile, in response to the improvement in income and expenses in fiscal 2013 and in accordance with the law and the articles of incorporation, we have begun to accumulate an equalized reserve for dividends to policyholders\* to ensure the stability and enhancement of dividends in the future. We also conducted a dividend payment in line with the rules for group insurance.

\* Refers to the voluntary reserve for stabilizing the amount of dividends paid from surplus to policyholders provided in Article 30, Paragraph 5 of the Ordinance for Enforcement of the Insurance Business Act.

### [Ordinary Profit]

(Unit: Billions of Yen)

Fiscal years ended March 31	2014	2013	2012
Core operating profit	¥592.4	¥546.5	¥544.3
Expense difference	72.7	67.0	61.5
Risk difference	404.8	447.7	451.0
Interest difference	114.7	31.7	31.6
Capital gain/loss	145.6	(153.8)	(113.7)
Non-recurring gain/loss	(225.4)	(3.9)	51.0
Ordinary profit	512.6	388.7	481.5

Notes: 1. Core operating profit + capital gain/loss + non-recurring gain/loss = ordinary profit  
 2. The breakdown of core profit (expense difference, risk difference, and interest difference) has been calculated using a proprietary method giving consideration to the Company's unique factors, such as the composition of policies in force.  
 3. Capital gain/loss includes gain/loss on sales of securities and loss on valuation of securities and others.  
 4. Non-recurring gain/loss includes provision for and reversal of contingency reserves and others.

### [Equity Replacement Ratio]

(Unit: Billions of Yen)

As of March 31	2014	2013	2012
Foundation funds ( <i>kikin</i> ) and reserves	¥3,422.8	¥2,965.9	¥2,824.1
Net assets	1,486.1	1,430.4	1,371.6
Equalized reserve for dividends to policyholders	50.0	—	—
Liabilities	1,936.7	1,535.4	1,452.4
Contingency reserve	1,005.7	780.1	775.6
Reserve for price fluctuations in investments in securities	623.3	427.5	333.7
Subordinated bonds	157.0	157.0	—
Equity	3,579.9	3,122.9	2,824.1

Note: 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.

### [Status of Reserve for Policyholder Dividends]

(Unit: Billions of Yen)

Fiscal years ended March 31	2014	2013	2012
Provision for reserve for policyholder dividends	¥201.7	¥167.1	¥167.3
Amount of equalized reserve for dividends to policyholders	50.0	—	—

Note: The amount of appropriation of retained earnings has been written for the reserve for policyholder dividends and the equalized reserve for dividends to policyholders.

## 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 as a source of long-term security for policyholders. Given the increasing diversity and complexity of risk and the regulatory trends in Japan and overseas, 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 ERM\* management that is acutely aware of the relationship between earnings and risk.

At Nippon Life, every department has formulated "compliance programs" as implementation plans to further instill compliance in everyday operations throughout the Company and to strengthen countermeasures against anti-social activities. We will continue to observe social norms as well as laws and regulations, in order to merit the trust of our customers and society.

\* Enterprise Risk Management (ERM): All risks associated with a company's operations are identified in a comprehensive and systematic manner in order to achieve corporate targets. These risks are managed and controlled by using an integrated and strategic approach. The ultimate objectives of ERM are consistently increasing earnings over the long term and ensuring financial soundness.

## Main Balance Sheet Items (Nonconsolidated Basis)

(Unit: Billions of Yen)

As of March 31	2014
<b>Total assets</b>	<b>¥56,790.7</b>
Cash and deposits	467.7
Call loans	349.4
Receivables under securities borrowing transactions	159.8
Monetary receivables purchased	570.6
<b>Investments in securities:</b>	<b>44,369.0</b>
Domestic bonds	22,046.1
Domestic stocks	7,334.0
Foreign securities	14,258.2
<b>Loans:</b>	<b>8,528.9</b>
Policy loans	782.2
Industrial and consumer loans	7,746.6
<b>Tangible fixed assets</b>	<b>1,718.2</b>
<b>Intangible fixed assets</b>	<b>179.2</b>
Reinsurance receivables	0.2
Other assets	424.2
Customers' liability for acceptances and guarantees	30.1
Allowance for doubtful accounts	(7.0)
<b>Total liabilities</b>	<b>52,063.1</b>
<b>Policy reserves and other reserves:</b>	<b>48,785.9</b>
Reserve for outstanding claims	199.5
Policy reserves	47,515.4
Reserve for dividends to policyholders	1,070.8
Reinsurance payables	0.3
Corporate bonds	157.0
Other liabilities	1,607.1
Accrued bonuses for directors and audit and supervisory board members	0.0
Accrued retirement benefits	385.2
Accrued retirement benefits for directors and audit and supervisory board members	4.4
Reserve for program points	12.6
Reserve for price fluctuations in investments in securities	623.3
Deferred tax liabilities	328.6
Deferred tax liabilities for land revaluation	128.2
Acceptances and guarantees	30.1
<b>Total net assets</b>	<b>4,727.6</b>
Foundation funds ( <i>kikin</i> ) ①	250.0
Reserve for redemption of foundation funds ②	1,000.0
Reserve for revaluation ③	0.6
<b>Total surplus ④:</b>	<b>440.0</b>
Legal reserve for deficiencies	13.2
Other surplus reserves	426.7
Unappropriated surplus	311.6
<b>Total foundation funds and others (=①+②+③+④)</b>	<b>1,690.6</b>
Net unrealized gains on available-for-sale securities, net of tax ⑤	3,256.6
Deferred losses on derivatives under hedge accounting, net of tax ⑥	(134.1)
Land revaluation differences ⑦	(85.5)
<b>Total valuations, conversions, and others (=⑤+⑥+⑦)</b>	<b>3,036.9</b>
<b>Total liabilities and net assets</b>	<b>56,790.7</b>

### Total Assets

Total assets as of March 31, 2014 were ¥56,790.7 billion, with total general and separate account assets of ¥55,563.3 billion and ¥1,227.3 billion, respectively.

### Investments in Securities

From the standpoint of increasing profits for policyholders through the medium- and long-term improvement of revenues and profits, Nippon Life in particular holds domestic bonds, including national government bonds, local government bonds, and corporate bonds, all of which present potential for stable yen-denominated returns. Also, within the range of allowable risks, Nippon Life invests in domestic stocks, foreign securities and other securities. As of March 31, 2014, total investments in securities amounted to ¥44,369.0 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, 2014, net unrealized gains on available-for-sale securities, net of tax, was ¥6,515.4 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 ¥8,528.9 billion as of March 31, 2014.

### Tangible Fixed Assets

Tangible fixed assets include land, buildings, lease assets, construction in progress and movables. As of March 31, 2014, the balance amounted to ¥1,718.2 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, 2014, policy reserves stood at ¥47,515.4 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, 2014, the reserve for price fluctuations in investments in securities stood at ¥623.3 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, 2014, 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 ¥250.0 billion and ¥1,000.0 billion, respectively.

\*Please see page 130 for Nonconsolidated Balance Sheets.

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

(Unit: Billions of Yen)

Fiscal year ended March 31	2014
① Ordinary income:	¥6,714.0
Revenues from insurance and reinsurance:	4,825.5
Insurance premiums	4,824.6
Investment income:	1,683.7
Interest, dividends, and other income	1,296.6
Gain on sales of securities	260.4
Other ordinary income	204.7
② Ordinary expenses:	6,201.4
Benefits and other payments:	3,778.2
Death and other claims	1,016.8
Annuity payments	857.6
Health and other benefits	769.6
Surrender benefits	839.8
Other refunds	292.9
Provision for policy reserves:	1,378.9
Provision for policy reserves	1,354.2
Provision for interest on reserve for dividends to policyholders	24.7
Investment expenses:	186.3
Interest expenses	7.7
Loss on sales of securities	57.7
Loss on valuation of securities	22.2
Loss on derivative financial instruments, net	36.5
Operating expenses	561.8
Other ordinary expenses	296.1
③ Ordinary profit (=①-②)	512.6
④ Extraordinary gains:	43.2
Gain on disposals of fixed assets	2.7
Gain on liquidation of subsidiaries and affiliates	40.4
⑤ Extraordinary losses:	208.3
Loss on disposals of fixed assets	6.2
Impairment losses	4.7
Provision for reserve for price fluctuations in investments in securities	195.7
Loss on reduction entry of real estate	0.0
Contributions for assisting social public welfare	1.4
⑥ Extraordinary gains (losses) (=④-⑤)	(165.1)
⑦ Surplus before income taxes (=③+⑥):	347.5
Income taxes, current	142.3
Income taxes, deferred	(79.2)
⑧ Total income taxes	63.0
⑨ Net surplus (=⑦-⑧)	284.4

### 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, 2014 was ¥4,825.5 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, 2014, investment income totaled ¥1,683.7 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, 2014, benefits and other payments were ¥3,778.2 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, 2014, provision for policy reserves totaled ¥1,354.2 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, 2014, investment expenses amounted to ¥186.3 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, 2014, provision for reserve for price fluctuations in investments in securities totaled ¥195.7 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, 2014 totaled ¥284.4 billion.

\*Please see page 132 for Nonconsolidated Statements of Income.

## Management Policy Ahead

As our three-year management plan comes to an end in the fiscal year ending March 31, 2015, we will step up our activities to achieve the target of "Return to Growth" in the Future Creation Project. These activities will follow the three main themes below.

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

To improve net proceeds relating to insurance, we will strengthen our drive for business activity innovation to improve the quantity and quality of consulting services. At the same time, we will further differentiate our strategies for each customer segment.

First, in our "Plus One Activities," we will aim to increase the number of proposals that each sales representative makes each day by one. Through this activity, we will work to increase each representative's sales volume by one policy per month, stepping up our efforts, for example, by focusing on Saturday activities when a larger proportion of consumers are at home.

Moreover, we will also take a stronger approach to young people and our core customer segments by expanding sales of our "high-expense discount system," which offers a discount on insurance premiums in accordance with the amount of production, and the *Nissay Educational Endowment Insurance* product, which has sold over 100,000 policies in the first year since it was launched. In other initiatives, we will increase the appeal of *Mirai no Katachi* by improving flexibility for revising policy content after signing up and providing the new service for women, *Wellness-dial.f*\*.

In particular, we will strive to introduce the Life Plaza consulting methods to sales representatives and promote joint efforts between sales representatives located mainly in large cities and corporate sales representatives aimed at cultivating the worksite market. We will also combine face-to-face channels such as Life Plaza with the Internet.

Furthermore, in an effort to further develop new markets, while keeping sales representatives at the core, we will synergistically combine our multi-faceted channels such as the Life Plaza and agencies, as well as the bank assurance channel.

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

\* This hotline was added on March 25, 2014 as another component of the *Zutto Motto Service* for policyholders. The hotline enables women to freely consult with female specialists about health issues and medical symptoms specific to women.

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

Despite the signs of improvement in stock prices and foreign exchange rates, we feel it is still necessary to strengthen our financial soundness and profitability given the continued historically low interest rates and the unpredictable market environment.

In asset management, we will continue to base our approach on a diversified portfolio structure to prepare against volatility in interest rates, stock prices, and foreign exchange rates. At the same time, we will step up our loans and investments overseas and in growth fields and take other steps in an effort to improve our risk-return ratio.

From April 2014, we revised the premium rates on individual insurance and individual annuities and reduced the interest rate in order to ensure soundness. In line with this, we will expand the high-expense discount system and boost our response to the increase in customer needs for healthcare in an effort to improve customer convenience.

Regarding equity, we will work to strengthen equity in a balanced manner that reflects the characteristics of foundation funds (*kikin*) and reserves, which are our core capital, and subordinated debt, which can be procured with great flexibility. Although our foundation funds (*kikin*) and reserves have already exceeded the ¥3 trillion level targeted under the Future Creation Project, given the frequency and degree of risk in the previous year, we will continue working towards the "optimum equity" amount of ¥4.4 trillion that is required based on stringent risk management and other parameters.

Through these measures, we will fulfil our responsibility as long-term source of security for our customers, which is our mission as a life insurance company.

To achieve this, we will also work to increase the number of new policies sold, streamline operating costs in every area, and secure stable asset management earnings. We will also strengthen our earnings capabilities and focus on our efforts to expand future earnings, such as overseas expansion and reinforcement of asset management operations.

\* Figures calculated as of March 31, 2014.

### 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, such as supporting sales representative activities and providing services to customers after enrollment. Specifically, they will direct sales representatives to visit customers whom they have not contacted for some time, or alternatively visit the customers themselves to conduct Policy Details Confirmation Activities. In this way, they will supplement the customer service system and help to boost productivity.

We will also focus on developing human resources with global business skills by implementing staff exchanges with overseas affiliates, sharing expertise with them, and other means.

Moreover, we will incorporate suggestions from women and young people for improving customer service and increasing profitability in our management plans and daily business operations and strive to promote the role of women in the workplace and in management. Moreover, we will take steps to achieve a healthy work-life balance. We have been encouraging men to take childcare leave, and in fiscal 2013 all eligible men made use of this system. We will continue working to establish this as a regular practice. Through these initiatives, we will work to leverage the diversity of our workforce, while creating a more open corporate culture.

Through these initiatives we will build a management foundation for sustainable growth by completing our Future Creation Project. We will make even further progression on the target for all employees in making Nippon Life a company of excellence in "scale," "quality," and "credibility."