

Strengthening Financial Soundness

# Strengthening Equity

## Our Commitment to Increasing Equity

Fulfilling our responsibility to provide long-term protection for customers is our primary mission as a life insurance company.

Due to the term of life insurance policies, we must take into account the possibility of a crisis that is worse than we can predict. A major natural disaster or historic drop in stock prices are two examples of such risks. Equity provides the financial foundation for making insurance claims and benefit

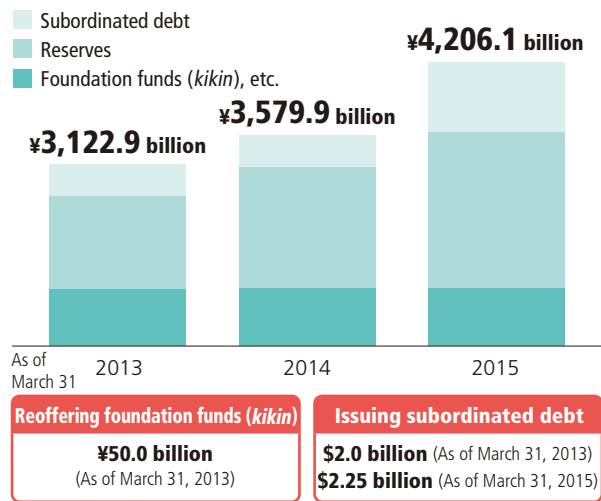
payments as stipulated in policies even after a crisis of unexpected magnitude. In addition, investment income from equity is one basis for dividend payments. As of March 31, 2015, due to payments into the contingency reserve and reserve for price fluctuations in investments in securities, equity was ¥4,206.1 billion.

We believe that strengthening equity is essential to establishing Nippon Life as a company of excellence in “financial soundness.”

## Growth in Equity

Equity is the sum of 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 plus subordinated debt, which are included in liabilities on the balance sheets. Equity is also called foundation funds (*kikin*) and reserves.

We have enhanced equity by strengthening our foundation funds and reserves by taking steps such as using annual earnings to increase reserves and conducting issuance of foundation funds, which is the core capital of a mutual company. In addition, we dynamically issued subordinated bonds according to the degree of materialized risk.



## Subordinated Debt

Subordinated debt is unsecured debt whose owners can only be repaid in the event that the issuer goes bankrupt after payments to ordinary debt holders, insurance payments to customers and other obligations.

These characteristics make this type of debt similar to equity. As a result, life insurers are allowed to incorporate subordinated debt to some degree in the calculation of their solvency margins.

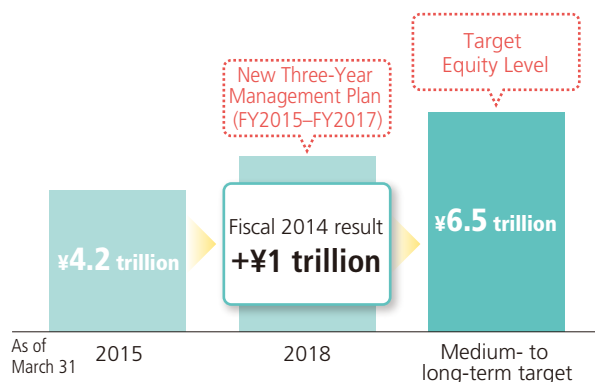
Nippon Life issued U.S. dollar-denominated subordinated debt during fiscal 2012 (\$2.0 billion) and fiscal 2014 (\$2.25 billion), as well as ¥75.0 billion in yen-denominated subordinated debt in April 2015.

The aim of these issuances was to further increase financial soundness while reinforcing the financial base to bolster profitability by broadening the debt component of the capital base to take advantage of the prevailing low-interest-rate environment.

## Target Equity Level

From the viewpoint of reinforcing the financial base to undertake future business strategies based on stricter risk measurement standards in anticipation of the future introduction of international capital regulations, we have set ¥6.5 trillion as our new equity target over the medium to long term.

Under the New Three-Year Management Plan, we plan to accumulate ¥1 trillion in equity over the plan period (including external fundraising) so that we can achieve the medium- to-long-term target of building up the capital base to ¥6.5 trillion.



## Foundation Funds (*Kikin*)

Foundation funds (*kikin*) can be sold by mutual companies as a method of procuring funds permitted under the Insurance Business Act. They function in an analogous way to the equity capital of a joint-stock company. The funds are similar to a loan in that interest payments and redemption dates must be specified at the time of offering, but in the event of a bankruptcy or other insolvency, repayments of the principal and interest are subordinated to the

interests of ordinary debt holders, insurance payments to customers and other obligations. In addition, upon the redemption of foundation funds (*kikin*), mutual companies are required to make an addition to the reserve for redemption of foundation funds, which serves as retained earnings, that is equal to the amount redeemed. As a result, the full amount of foundation funds (*kikin*) remains in equity even after redemption.

### ■ Foundation Funds (*Kikin*) Status

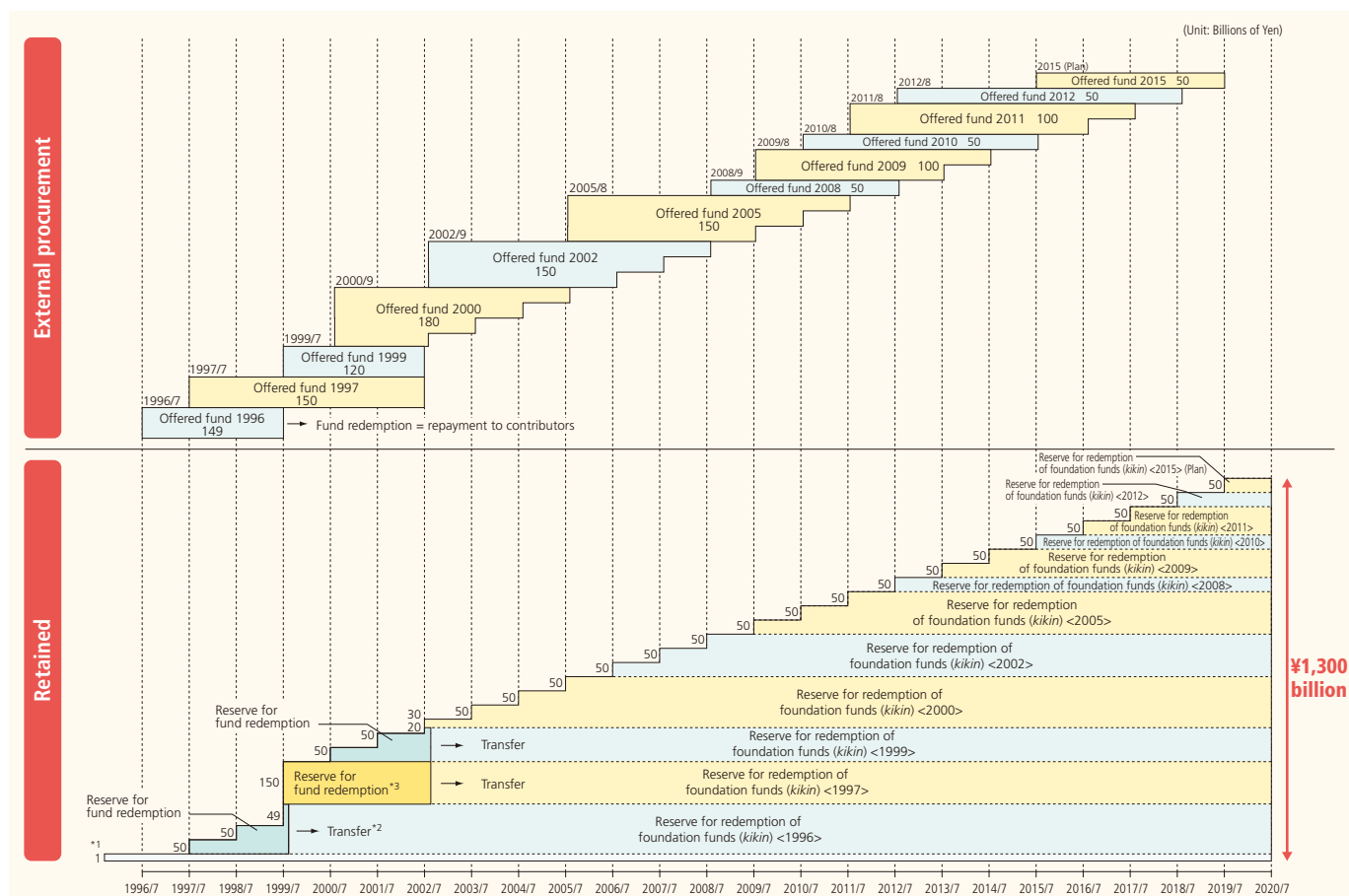
We solicit foundation funds in order to enhance our ability to respond to risk. As a result of reoffering funds eleven times since revisions were made to the Insurance Business Act in 1996, our total foundation funds, including funds and the reserve for redemption of foundation funds, reached ¥1,250 billion as of the end of the fiscal year ended March 31, 2015.

Since the fiscal year ended March 31, 2001, Nippon Life has aimed to expand the number of fund contributors by using securitization methods

through a special purpose company. In the fiscal year ended March 31, 2003, Nippon Life made a public offering to general individual investors, and in the fiscal year ended March 31, 2006, Nippon Life made an offering to overseas investors, increasing flexibility in funds procurement.

We plan to reoffer an additional ¥50 billion in foundation funds (*kikin*) in fiscal 2015 to bring our total foundation funds to ¥1,300 billion.

### [Fund Redemption]



\*1 As stipulated by the Insurance Business Act, the minimum fund amount is ¥1 billion.

\*2 Article 56 of the Insurance Business Act: When redeeming the fund, an amount equivalent to the redemption amount must be accumulated as a reserve for redemption of foundation funds. Reserve for fund redemption is a voluntary reserve and it is transferred to reserve for redemption of foundation funds (*kikin*) when the foundation funds (*kikin*) are redeemed.

\*3 The redemption of ¥150 billion of reserve for fund redemption expected to occur between the fiscal year ended March 31, 2000 and the fiscal year ended March 31, 2002 was completed earlier than expected.

### Fund Contributors (as of March 31, 2015)

Amount of Fund Contributions	¥200 billion	Number of Fund Contributors	3	
Names of Fund Contributor	Fund Contributions to Nippon Life		Investments of the Company in Fund Contributors	
	Amount (Billions of Yen)	Fund contribution (Percentage)	Shares held (Thousands of Shares)	Voting rights (Percentage)
Nippon Life 2011 Fund Special Purpose Company	¥100	50.00%	—	—%
Nippon Life 2010 Fund Special Purpose Company	50	25.00	—	—
Nippon Life 2012 Fund Special Purpose Company	50	25.00	—	—

Notes: 1. Nippon Life 2010 Fund Special Purpose Company, Nippon Life 2011 Fund Special Purpose Company and Nippon Life 2012 Fund Special Purpose Company issue special corporate bonds backed by claims on the funds. Issuance proceeds are used to purchase claims on the funds. Nippon Life has no specified investments in the Nippon Life 2010 Fund Special Purpose Company, Nippon Life 2011 Fund Special Purpose Company or Nippon Life 2012 Fund Special Purpose Company.  
2. Fund contributors are the three above-mentioned entities.